

# Centuria Capital Limited

Annual  
Report  
2012



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## Management Directory

### Centuria Capital Limited

John McBain	Chief Executive Officer
Matthew Coy	Chief Financial Officer
Julian Blackley	Head of Finance
Yujita Chaudri	Group Tax Manager
Troy Dafter	Head of Compliance
Peter McDonagh	Head of Reverse Mortgages
Woon Pin Chong	Managing Director, Asia

### Centuria Life Limited

Terry Reid	General Manager
Anne Hamieh	Head of Distribution
Ash Nakhla	Investor Services Team Leader

### Centuria Property Funds Limited

Jason Huljich	CEO - Property
David Govey	Head of Assets
John Taylor	Head of Distribution
Andre Bali	Head of Development
Sebastian Ugarte	Acquisitions Manager
Jeremy Robotham	National Leasing Manager
Jacques Duvenage	National Facilities Manager
Mark Jones	Manager, Property Funds Victoria
Ben Harvie	Head of Funds Management
Doug Hoskins	Fund Manager



# Highlights



# About Us

**Centuria Capital** is an ASX-listed diversified funds manager with approximately \$1.9 billion in funds under management. Centuria is a single company with a single direction and a single set of values – which surround a simple aim of putting our investors first.

There are two divisions within Centuria being Property Funds, which specialises in unlisted property investments; and Financial Services, which offers a range of investment opportunities – from tax effective bonds and education plans, to mortgage and insurance products.

We offer something refreshingly different to our direct clients and to financial advisers and their clients: we manage investments personally. That means your investment is constantly under the control of an expert with in-depth market knowledge, commercial acumen and an unerring sense of what matters to you.

Our size is an advantage. We are smaller, nimbler and therefore better able to respond to opportunities swiftly. That doesn't mean we think small – quite the opposite, in fact. We have the experience and confidence to take on major challenges, and the skill to see them through.





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# Chairman's Review

## Dear Shareholders,

2012 continued to produce challenges for our business.

As you may recall, in the 2011 financial year, we achieved considerable growth in our property funds under management through the acquisition of management rights from other fund managers, including Becton. In the 2012 financial year, that same strategy proved more difficult. Despite making a number of attempts to take over the management of some additional property funds, we were not successful.

As a consequence, the Board has determined that the key strategy for driving the growth of our property funds management business is to do so by buying more real property. This is something we have a long history of doing with success. We believe that the continuing rationalisation in the property funds management business, which will see a reduction in the number of top tier fund managers, will assist our business and that we will also be assisted by another change we are starting to see, namely, more quality properties coming on to the market and at more realistic prices than has previously been the case.

Our assessment is that current economic conditions are likely to endure for some time. We are continuing to carefully review all aspects of our business, from our expenses through to potential opportunities to find assets for investors offshore. It is critical that we continue to grow our property funds under management and your Directors believe this is an important priority for the current and future years. Fortunately, we have started the current financial year with considerably more success than the previous year. Our CEO will refer to this in his report.

Our growth aspirations are not confined to our property funds business. They extend to our life company and insurance businesses and we have a number of initiatives which we are embarking on, which will be rolled out during the course of the current financial year.

Despite the somewhat uncertain economic times, we believe that your Company continues to be well-placed for sustainable and profitable growth. We have relatively low corporate debt, good strategies in place to achieve growth and an engaged team of people who are able to execute that strategy. With all of that, we look forward to the 2013 financial year and are confident it will be a successful year for the Centuria Capital Group.



**Roger Dobson**  
**Chairman**



**Roger Dobson**

**Chairman**  
LLB (Hons) LL.M







# Chief Executive's Report

## Dear Shareholders,

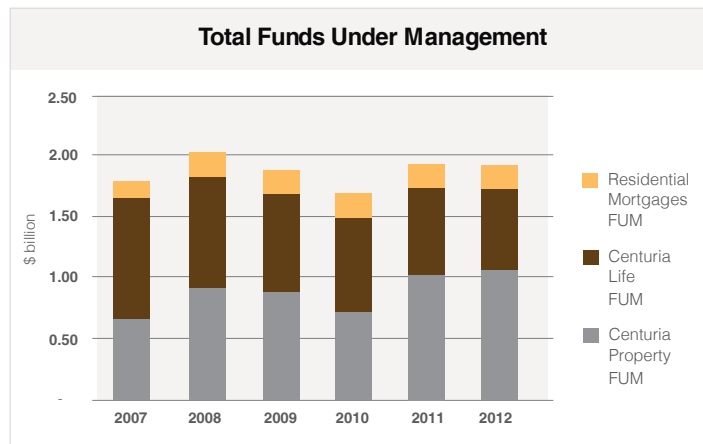
It is with pleasure that I present to you our 2012 Annual Report. Over the last 12 months, markets have continued to experience significant volatility. Despite this the Centuria Group generated positive earnings, maintained its strong balance sheet and implemented a number of rationalisation measures to ensure the business is well positioned for strong results in the 2013 financial year.

**Centuria Property Funds** will be a key profit driver in respect of upfront fees and annuity management fee income. In 2012, this division contributed significantly to group profits despite acquiring only one investment property for a new fund. Whilst the level of new acquisitions was subdued during the 2012 year, the 2013 financial year is looking promising for the property division with contract negotiations being finalised for two investment properties totalling ~\$80 million due for settlement in the first half. The division has a number of other acquisition opportunities currently under review and, provided it can contract a similar amount in the second half, the prospect of a significantly improved profit contribution for the full year is excellent.

**Centuria Life** again delivered stable earnings to the Group and funds under management remained relatively stable. The capital guaranteed bonds continued to deliver consistent net positive returns in a challenging environment which has seen the Reserve Bank cash rate fall considerably. New product development initiatives remain a key focus and we expect stable earnings from Centuria Life in the 2013 financial year.

**Capital management** is a regular focus of the Senior Management Team and the Board. We have recently announced that we will be allocating \$1.6 million to undertake an unmarketable parcel share buy-back and that we will not be paying a final dividend in respect of the 2012 financial year. We firmly believe that this decision will be of benefit to the Group and that it demonstrates the confidence the Senior Management Team and Board have in the Group's prospects.

**The outlook** for financial markets remains challenging. We believe however that these market conditions will provide good buy side opportunities for the property division which we expect will drive strong growth in 2013 earnings. We expect the Centuria Life division to continue to be a strong and stable source of earnings for the Group. With the recent rationalisation measures having been implemented, we believe growth will be seen across the Group in the 2013 financial year.



## Key Financial Highlights

- Underlying net profit before tax of \$8.2 million
- Statutory net profit before tax of \$3.7 million
- Net assets of \$90.4 million - equivalent to \$1.10 per share
- Centuria Property Funds Under Management (FUM) increased for the second year in a row
- Group FUM remained stable
- One new Property Fund established - \$58 million property acquisition
- Two investment properties under contract - total of ~\$80 million
- 15% headcount reduction during FY12

**John McBain**  
Chief Executive Officer

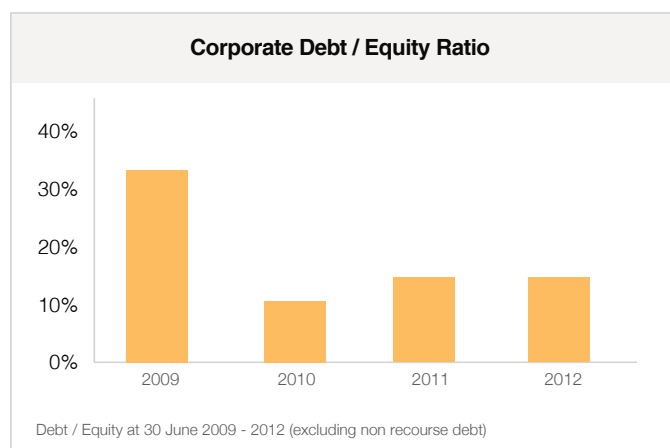


**John McBain**  
Chief Executive Officer  
Dip. Urban Valuation

# Financial Commentary

**Centuria Group** made an underlying net profit after tax of \$4.9 million and a statutory profit after tax of \$2.0 million for the year ended 30 June 2012.

During the year the Group continued to focus on system enhancements and business scalability, which will not only save operating costs in the short-term but enable the Group to achieve stronger profits as the business grows, particularly in property funds management.



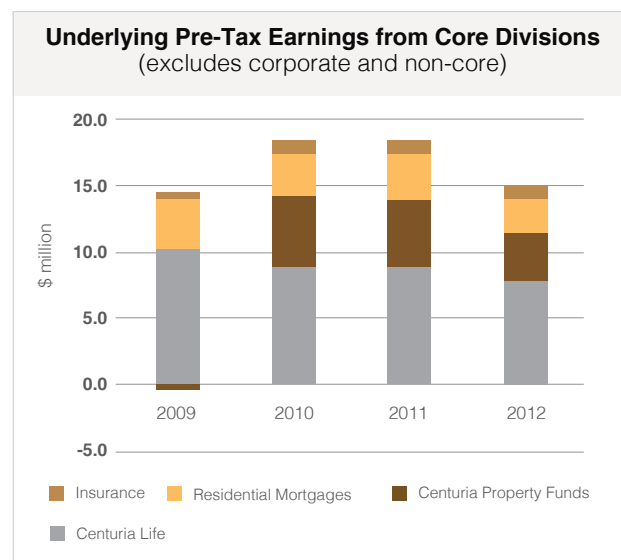
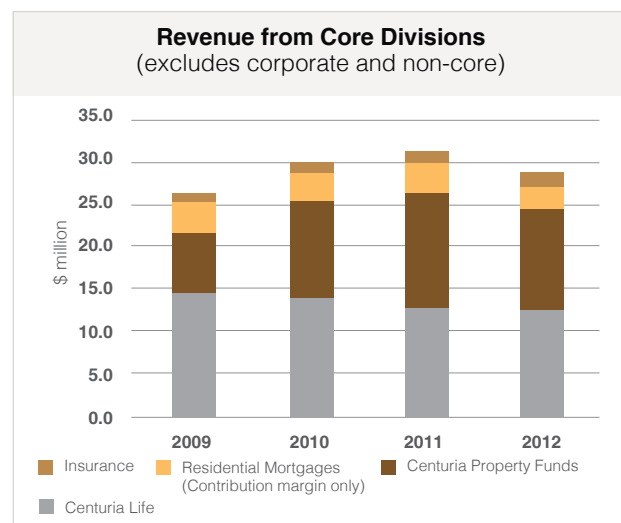
Capital management also continues to be a primary focus with the Group announcing an unmarketable share parcel buy-back in replacement of a final dividend, which is aimed at improving the Group's earnings per share. Our corporate debt (remaining low at 14% gearing) and our Residential Mortgage warehouse facility have been extended during the period.

Towards the end of the financial year the Group also undertook a strategic structural review, which has reduced headcount by approximately 15%, as well as relocating the Melbourne office to a smaller, more cost-effective, premises in a Centuria managed asset. The financial benefit of these initiatives will be realised during the 2012/13 financial year.

The charts to the right highlight the revenue and underlying pre-tax earnings from the four core divisions of the Group.

The results for the Centuria Property Funds division have been impacted by low acquisition performance fee, however, the division is now close to finalising the acquisition of two new properties for ~\$80 million for new funds.

The underlying earnings from the Life division were down from the prior period partially as a result of a more accurate allocation of costs, as well as strategic staff appointments made in the business focusing on business developments.



## Underlying Results (AIFRS Statutory Results excluding Benefit Funds)

The following table provides a reconciliation of the Group's Corporate underlying earnings (excluding Benefit Funds) by major divisions to the reported net profit after tax.

Year Ended 30 June	2012	2011
Underlying earnings by major division	\$'million	\$'million
- Centuria Property Funds	3,577	4,755
- Centuria Life	7,755*	9,137
- Residential Mortgages	2,661	3,495
- Insurance	1,065	1,037
- Corporate	(6,709)	(8,601)
- Other	(114)	697
<b>Total underlying earnings</b>	<b>8,235</b>	<b>10,520</b>
<b>Tax expense (excluding non-recurring items)</b>	<b>(3,374)</b>	<b>(4,163)</b>
<b>Underlying net profit after tax</b>	<b>4,861</b>	<b>6,357</b>
<b>Non-recurring adjustments</b>		
- Prior year non-recurring adjustments (including tax effect)	-	9,248
- Impairment of investment in associate	3,087	-
- Provision for doubtful debts (CBGF1)	1,169	-
- Final convertible notes provision	934	-
- Change in estimate of realisation of Residential Mortgages fixed-for-life swaps	(650)	-
- Net gain on NLT investment property and borrowing write-downs	(406)	-
- Tax benefit on 30 June 2012 non-recurring adjustments	(1,240)	-
<b>Reported net profit after tax</b>	<b>1,967</b>	<b>(2,891)</b>

\* Life division underlying earnings suffered a one-off impact of more accurate allocation of costs and strategic staff appointments made in the business.



**Matthew Coy**

Chief Financial Officer  
B.Bus. Accounting, CPA



**Julian Blackley**

Head of Finance  
B.Bus. Accounting FCA,  
Grad. Dip. Accounting

**Matthew Coy**  
Chief Financial Officer

# Centuria Property Funds

## Year in review

**The property funds management group has had a stable year. Funds under management have held steady at just over \$1 billion with one additional purchase during the year.**

During FY12 this division had a strong focus on corporate acquisitions and lodged four bids for funds management platforms which consisted of \$2.9 billion of property funds. Unfortunately, we were unsuccessful in these acquisitions.

Considerable time was also spent on the integration of a new funds management and accounting system. This will allow us to service a future increase in scale in the business with fewer staff.

## Centuria's largest purchase

In April we purchased our largest property since our inception, 441 St Kilda Road, Melbourne, for \$58 million.



**441 St Kilda Road,  
Melbourne, Victoria**



**Jason Huljich**

CEO - Centuria Property Funds  
B Comm, Commercial Law



**David Govey**

Head of Assets  
Dip. Technology (Valuation) and  
Grad. Dip. Town Planning

The property is a 16,175 sqm commercial office building with parking for 390 cars. The building presents very well and is currently undergoing a full services upgrade, which was financed by the vendor. It has large floor plates of over 2,000 sqm and is one of the top buildings along the boulevard. We expect this investment to perform exceptionally well, and have already seen signs of rental growth.



**We have worked very hard over the year to position Centuria as a market leader in the unlisted property funds sector and have gained strong traction with many of the national financial planning groups.**

**Jason Huljich**



## Outlook

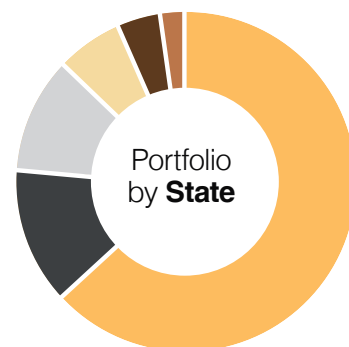
The year ahead looks particularly promising. Our property funds management team is close to exchanging contracts on two purchases worth ~\$80 million and our acquisitions team is working on potential purchases for the second half.

We have worked very hard during the year to position Centuria as a market leader in the unlisted funds sector and have gained strong traction with many of the national financial planning groups.

We are seeing increased interest in the sector from investors as competing investments such as term deposits become less attractive due to decreasing interest rates. Current volatility in the equities markets and lower term deposit rates have also improved the sector's comparative appeal.



Office	67.39%
Industrial	10.87%
Retail Bulky Goods	13.04%
Speciality Use	2.17%
Mixed Use	2.17%
Retail	4.25%



New South Wales	63.04%
Victoria	13.04%
Queensland	10.87%
South Australia	6.52%
Australian Capital Territory	4.35%
Northern Territory	2.17%

**During the year  
we purchased our  
largest property  
since our inception.**

Jason Huljich



# Centuria Financial Services

## Year in review

### **Centuria Financial Services remains a core business of Centuria Group and continues to generate strong and stable cash earnings to the Group.**

Centuria Life's funds under management in Friendly Society Bonds was \$712 million as at 30 June 2012. The FUM of the Capital Guaranteed Bond and Income Accumulation Bond were \$159 million and \$211 million, respectively.

The returns of these Bonds are highly correlated to movements in interest rates. As was the case for most global economies, Australia experienced a significant decline in interest rates over the course of the financial year. The official cash rate set by the Reserve Bank fell from 4.75% on 1 July 2011 to 3.5% on 30 June 2012. Yields in fixed interest markets fell with the benchmark 10 year Commonwealth Bond rate declining from 5.27% to 2.9% over this period.

By running a diversified portfolio within very strict investment rules, we have minimised the impact of these falls in market returns on our Bonds. We have continued to protect policyholders' capital and delivered a positive tax paid bonus despite challenging market conditions.

## Looking ahead

We are cautiously optimistic that 2012/13 will be a better year for investment markets. Investors will continue to focus on certainty of earnings and dividends, rather than expect high levels of growth.

Interest rates will remain low and investments with a secure income stream will continue to be highly sought after. Whilst we expect volatility to continue, there are some signs that after nearly five years we may be seeing some early signs of stability, if not recovery, in the global economy.

We will continue to carefully navigate our way through this uncertainty with the primary objective of looking after the interests of our bondholders.

## Future opportunities

We continue to focus on defining a clear product and distribution strategy, which has been influenced by an evolving financial planning environment. Market forces and conditions have changed markedly in recent years. The considered work we are undertaking will ensure that we are positioned to focus on targeted opportunities that will deliver value for the Group.

We have witnessed further changes to superannuation this year, which impact concessional contributions. With the risk of further changes, many Australians are looking for alternative investment vehicles for retirement planning. Investment Bonds, with their flexibility and tax effectiveness, can be used to complement superannuation as a long-term savings solution. Coupled with some innovative ideas for the bond structure, we believe we can deliver a compelling investment vehicle to the market.



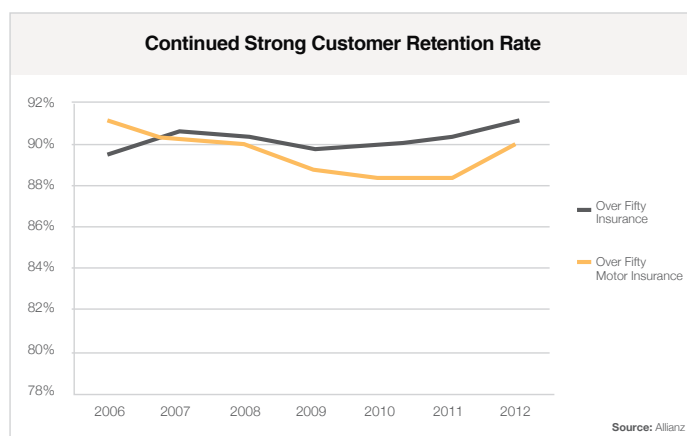
**Terry Reid**  
General Manager  
Dip. Bus, CA



**Anne Hamieh**  
Head of Distribution  
B. Eco,  
Grad. Dip. Appl. Finance & Investment and  
Grad. Dip. Management

## Over Fifty Insurance

Over Fifty Insurance is a division of Financial Services with over 25,000 policies across general, travel or motor vehicle insurance. The division has generated an increase in 2012 net profit after tax and the high customer retention rate has been maintained.



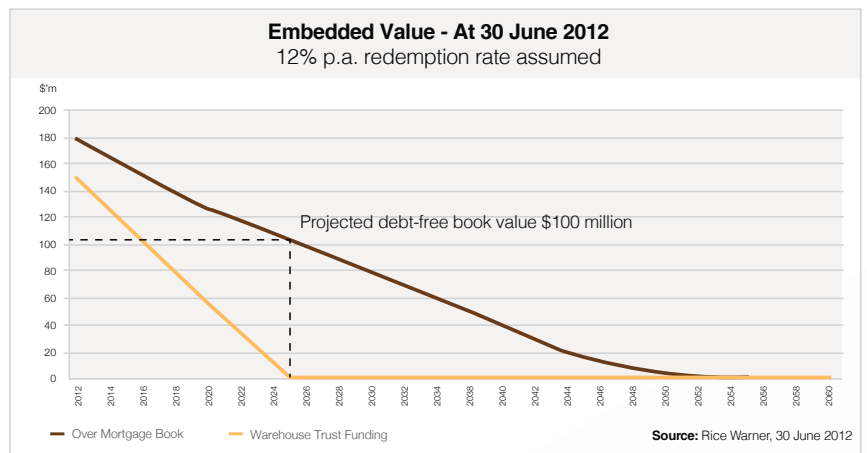


## Reverse Mortgages - future value to shareholders

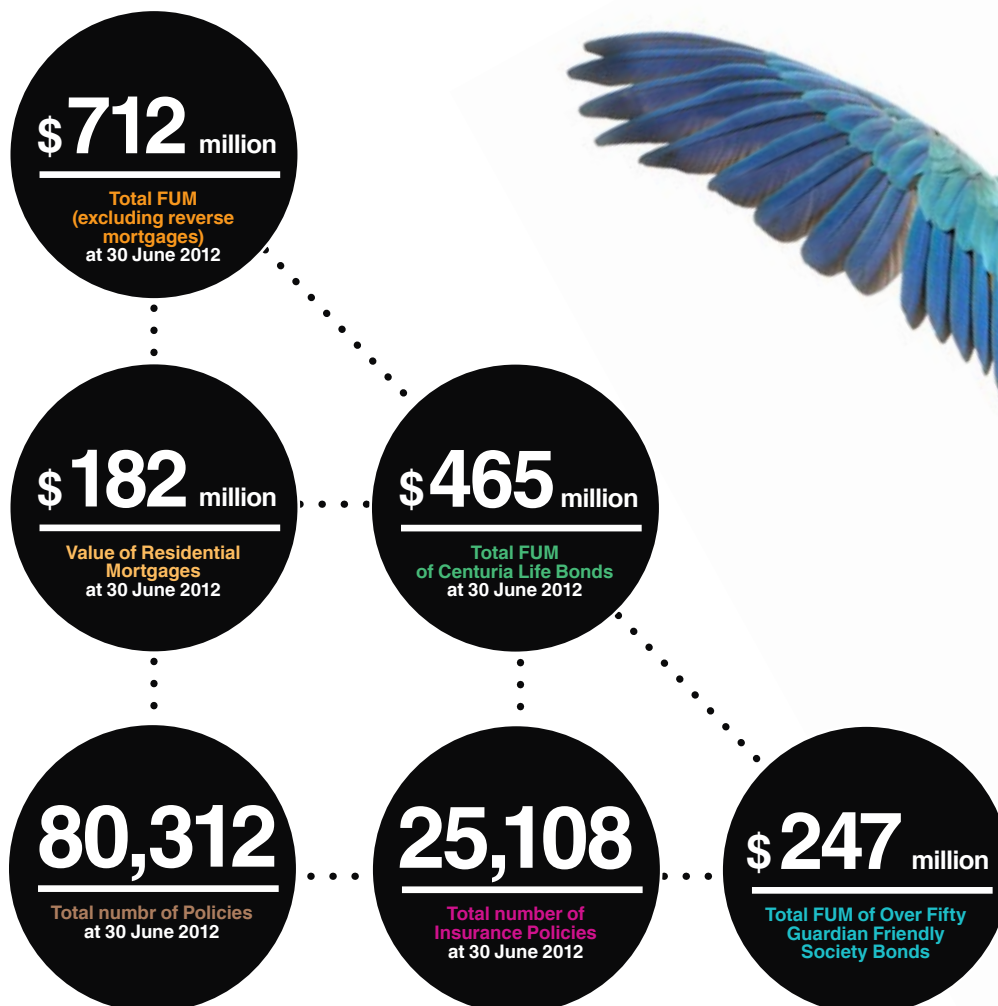
We continue to manage our reverse mortgage book for existing investors. This remains a consistently steady and profitable business unit for Centuria Capital.

Further, the reverse mortgage book has significant embedded shareholder equity, which will increase over time.

This chart illustrates the value to shareholders. As the loan facility is repaid over time, the value of the mortgage book increases and becomes cash flow positive. When the loan is repaid fully, the asset balance represents positive cash flow to Centuria.



\* The above projection is subject to many variables including run-off rate, regular refinancing, and projection given is as a guide only.



# Directors



**John McBain**

**Executive Director  
and Chief Executive Officer**  
Dip. Urban Valuation

John was appointed CEO of the Company in April 2008. He was the founder of Century Property Funds, which was acquired by Centuria Capital in 2006. John gained his valuation qualification from Auckland University in 1978 and since then has been continuously involved in commercial property investment and consulting in Australia, New Zealand and the UK.

From 1986 to 1989 he was Managing Director of a commercial property investment company based in the U.K. In 1990 he established boutique property advisory firm Hanover Property Group in Australia. Entering the financial services market in 1995, he founded Waltus Investments Australia Limited, one of the first ASIC regulated direct property fund managers. In 1998 he formed Century Funds Management and in 2006 he joined the Board of Centuria Capital and the Investment Committees of both Centuria Life (formerly the Over Fifty Group) and the Over Fifty Guardian Friendly Society.



**Jason Huljich**

**Executive Director**  
B.Comm, Commercial Law

Jason became the CEO of Centuria Property Funds in 2006 and joined the Board in 2007. He is responsible for providing strategic leadership and ensuring the effective operation of Centuria's property portfolio. He has been involved in investment property syndication in Australia since 1996 and has considerable expertise in investment property selection, syndicate feasibility and syndicate management. Jason is the Vice President and sits on the National Executive Committee of the Property Funds Association, the peak industry body representing the \$32 billion direct property investment industry.



**Roger Dobson**

**Chairman**  
LLB (Hons) LL.M

Roger was appointed to the Board in 2007. He is Chairman of the Board, Chairman of the Nomination and Remuneration Committee and is also a member of the Audit, Risk Management and Compliance Committee. Roger is a senior partner of Henry Davis York and established the firm's banking and finance practice in 1991. Roger has extensive legal knowledge of the property funds management and financial services industries, as well as corporate governance and regulatory issues.



**Peter Done**

**Non-Executive Director**  
B. Comm, FCA

Peter was appointed to the Board in 2007 and is the Chairman of the Audit, Risk Management and Compliance Committee. He is also a member of the Nomination and Remuneration Committee and the Investment Committees. Peter was a partner of KPMG for 27 years until his retirement in June 2006. He has extensive knowledge in accounting, audit and financial management in the property development and financial services industries, corporate governance, regulatory issues and Board processes through his many senior roles.



**Deepak Gupta**

**Non-Executive Director**  
BCA, MBA, Cert. Investment Analysis

Deepak was appointed to the Board in 2007 and is a member of the Nomination and Remuneration Committee, the Audit, Risk Management and Compliance Committee and the Investment Committees. Deepak has 25 years' experience in the financial services and investment management industry. As the Executive Director of Trustees Executors Limited, he is responsible for the company's strategic, operational and financial management. Trustees Executors currently has NZ\$55 billion of funds under supervision, administration or management.

## Directors' Report for the year ended 30 June 2012

The Directors named held office during the whole of the financial year and since the end of the financial year.

### Directors' shareholdings

The following table sets out each Director's relevant interest in shares in CCL as at the date of this report.

Directors	Fully Paid Ordinary Shares	Share Options
	Number	Number
R.W. Dobson	713,639	-
J.E. McBain	4,472,359	600,000*
J.C. Huljich	2,189,116	400,000*
P.J. Done	324,261	-
D.K. Gupta	119,808	-

\* These share options lapsed on 30 June 2012 and as a result no shares were issued.

Directors hold ordinary interests, with equal rights to other shareholders.

Information about the remuneration of Directors and Senior Management is set out in the Remuneration Report of this Directors' Report.

### Company Secretaries

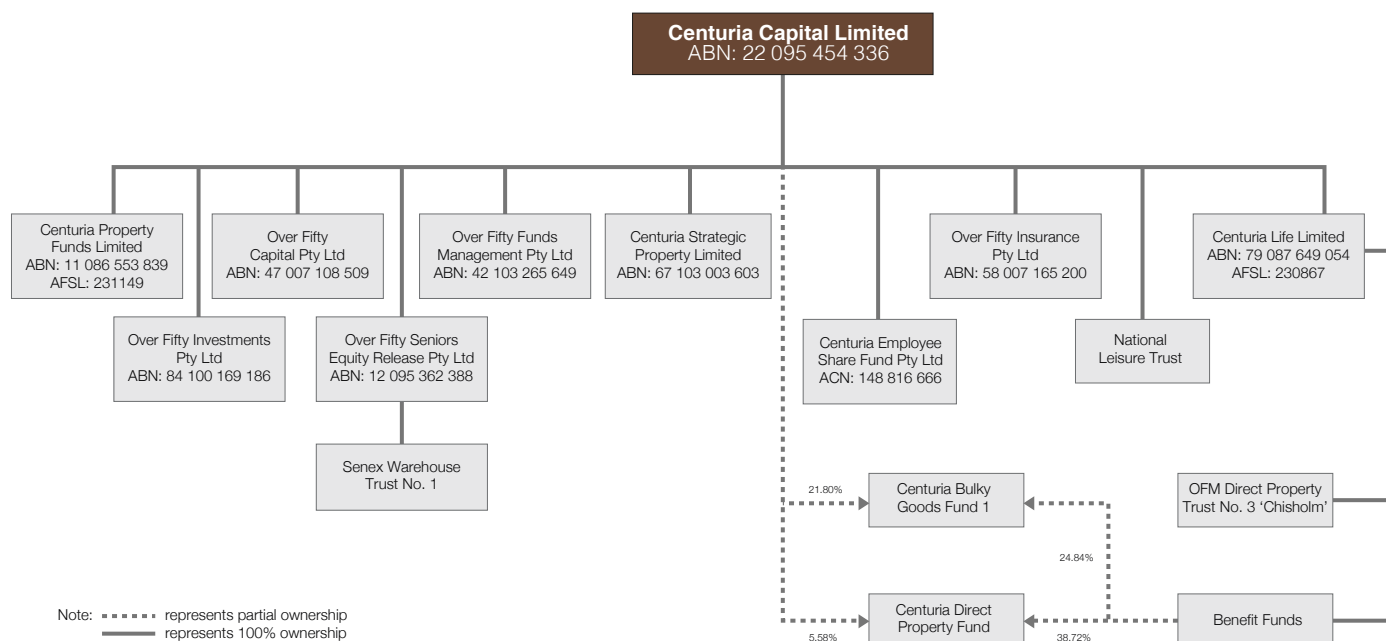
Mr Terry Reid, Chartered Accountant, has been the Company Secretary since December 2007. He is a member of the Institute of Chartered Accountants in Australia.

Mr Matthew Coy (BBus, CPA), Chief Financial Officer, was appointed in October 2009 as an additional Company Secretary.

### Corporate structure

Centuria is a company limited by shares that is incorporated and domiciled in Australia. The company has prepared a consolidated financial report incorporating the entities it controlled during the financial year, which are outlined in the following illustration of the Group's corporate structure. All entities are 100% owned unless otherwise stated.

#### Centuria Capital Limited as at 30 June 2012



### Principal activities

The principal activities of the consolidated entity (being CCL as the parent entity, and its controlled entities, together 'the Group') during the course of the financial year, were the marketing and management of investment products (including friendly society investment bonds and property investment funds), general insurance through agency arrangement, mortgage lending and management, property investment and management of Over Fifty Guardian Friendly Society Limited.

## Review of operations

The consolidated net profit for the year is \$1.967 million (2011: loss of \$2.891 million) after providing for an income tax expense relating to shareholders of \$2.133 million (2011: \$0.549 million).

The main sources of revenue were principally from the operations of Centuria Life Limited, Residential Mortgages and Property Funds Management.

Operational highlights for the financial year were as follows:

### Centuria Life

- Centuria Life remains a core business of the Group and continues to generate strong and stable cash earnings. As at 30 June 2012, Centuria Life administered \$712 million of friendly society benefit funds.
- The team has continued to focus on improving investment management capability as well as communication to existing policyholders.
- Guaranteed bonds continue to deliver consistent net returns in a challenging year, in light of falling cash rates.
- The Group has also focused on defining a clear product and distribution strategy, which has been influenced by the changing financial planning environment. This work will ensure that we target opportunities effectively to generate further value for the Group.

### Property Funds Management

Centuria Property Funds is another core business of this Group and we see considerable growth potential in this business.

- The division is well progressed with the potential acquisition of two investment properties at 30 June 2012.
- Successful launch of Over 50s Guardian Benefit Funds Trust No.2 which acquired a \$58 million investment property at 441 St. Kilda Road, Melbourne, VIC.
- Profitable sale of 16-18 Bridge Street, Epping, NSW and 607 St Kilda Road, Melbourne, in excess of book value.

### Residential Mortgages

- Continued the active focus on portfolio management.

### Insurance

- Continued strong commission income and high customer retention rate.
- Targeted marketing campaigns throughout the year.

### Significant expenses/adjustments incurred

The most significant expenses during the year which are considered to be of a non-recurring nature include:

- The investment in Centuria Bulky Goods Fund 1 (CBGF1) was written down by \$2.9 million to nil.
- The CBGF1 loan receivable and associated interest accrued of \$1.2 million has been written off.
- Loss on sale of Mortgageport of \$0.2 million.

- A \$1.0 million provision for a final compensation payment to convertible noteholders.
- Net accounting gain of \$0.5 million on National Leisure Trust (NLT) investment properties and associated borrowing write-down.
- A \$0.65 million gain due to a change in estimate of the realisation of the fixed-for-life swaps.

## Corporate governance practices

The Directors have, in striving to achieve the highest standards of corporate behaviour and accountability, complied with the principles and practices set out in the corporate governance statement contained in this annual report.

## Changes in state of affairs

Except for the sale of Mortgageport, there were no significant changes in the state of affairs of the consolidated entity during the financial year.

## Subsequent events

On 2 August 2012, Over Fifty Funds Management Pty Ltd as Trustee for the OFM National Leisure Trust (NLT) entered into a Heads of Agreement with a third party to sell the two properties at Moonah Links, Fingal, Victoria and Pepper Sands Resort, Torquay, Victoria which are owned by NLT. The purchase price is \$15.1 million and the expected settlement date is 31 August 2012.

The sale of the properties is conditional on final approval by the lender which is expected to occur between the date of signing this report and the date of settlement. The result of this transaction is that the asset has been reclassified to a non-current asset held for sale and valued at the purchase price less expected transaction costs.

The non-recourse debt from the lender has also been written down to the purchase price plus final interest charges up to the date of settlement.

At the date of signing this report, the extension, to 31 December 2013, of the Group's working capital facility, provided by National Australia Bank, had been approved by the financier.

# Directors' Report for the year ended 30 June 2012

## Future developments

The Group has made considerable investments across its different businesses to support the growth targets which have been set by the Board. The Board and Management Team are focused on further strengthening the two businesses, property funds management and financial services.

## Dividends

In respect of the financial year ended 30 June 2012, an interim dividend of 1.25 cents per share franked to 100% was paid to the holders of fully paid ordinary shares on 30 March 2012. In respect of the financial year ended 30 June 2011, an interim dividend of 2.5 cents per share partly franked to 30% and a final dividend of 3.5 cents per share partly franked to 30% were paid to the holders of fully paid ordinary shares.

## Indemnification of officers and auditors

CCL has agreed to indemnify all current and former Directors and Executive Officers of the Company and its controlled entities against all liabilities to persons (other than the Company or a related body corporate) which arise out of the performance of their normal duties as a Director or Executive Officer unless the liability relates to conduct involving a lack of good faith. CCL has agreed to indemnify the directors and executive officers against all costs and expenses incurred in defending an action that falls within the scope of the indemnity and any resulting payments.

The Directors have not included details of the nature of the liabilities covered or the amount of premium paid in respect of the Directors' and Officers' liability and legal expenses insurance contracts, as such disclosure is prohibited under the terms of the contracts. The Company has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Company or any related body corporate against a liability incurred as such an officer or auditor.

## Directors' meetings

The following table sets out the number of Directors' meetings (including meetings of committees of Directors) held during the financial year and the number of meetings attended by each Director (while they were a Director or committee member).

Directors	Board of Directors		Audit, Risk Management & Compliance Committee		Investment Committee		Nomination & Remuneration Committee	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
J.E. McBain	14	14	-	-	12	12	-	-
J.C. Huljich	14	14	-	-	-	-	-	-
R.W. Dobson	14	13	10	10	-	-	3	3
P.J. Done	14	13	10	10	12	11	3	3
D.K. Gupta	14	12	10	9	12	9	3	3



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## Non-audit services

Details of amounts paid or payable to the auditor for non-audit services provided during the year by the auditor are outlined in note 24 to the financial statements.

The Directors are satisfied that the provision of non-audit services, during the year, by the auditor (or by another person or firm on the auditor's behalf) is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 24 to the Financial Statements do not compromise the external auditor's independence, based on advice received from the Audit, Risk Management & Compliance Committee, for the following reasons:

- All non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- None of the services undermine the general principles relating to auditor independence as set out in Code of Conduct APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

## Auditor's independence declaration

The auditor's independence declaration is included on page 29 of the Annual Report and forms part of the Directors' Report for the year ended 30 June 2012.

## Rounding off of amounts

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the Directors' Report and the Financial Report are rounded off to the nearest thousand dollars, unless otherwise indicated.



# Remuneration Report for the year ended 30 June 2012

This Remuneration Report, which forms part of the Directors' Report, sets out information about the remuneration of CCL's Directors and its Senior Management for the financial year ended 30 June 2012. The prescribed details for each person covered by this report are detailed below under the following headings:

- 1 Director and Senior Management details;
- 2 Remuneration policy;
- 3 Relationship between the remuneration policy and company performance;
- 4 Non-Executive Director remuneration;
- 5 Remuneration of Executive Directors and Senior Management;
- 6 All other employees' remuneration; and
- 7 Key terms of employment contracts.

## 1. Director and Senior Management details

The following persons acted as directors of the Company during or since the end of the financial year:

Mr R.W. Dobson	(Independent Chairman)
Mr P.J. Done	(Independent Director)
Mr D.K. Gupta	(Independent Director)
Mr J.E. McBain	(Chief Executive Officer and Executive Director)
Mr J.C. Huljich	(Executive Director)

The term 'Senior Management' is used in this remuneration report to refer to the following persons. Except as noted, the named persons held their current position for the whole of the financial year and since the end of the financial year:

Mr M.J. Coy	(Chief Financial Officer and additional Company Secretary)
Mr T.D. Reid	(Company Secretary and General Manager Centuria Life Limited)
Mr D.B. Govey	(Head of Assets)

## 2. Remuneration policy

CCL recognises the important role people play in the achievement of its long-term objectives and as a key source of competitive advantage. To grow and be successful, CCL must be able to attract, motivate and retain capable individuals. CCL's remuneration policy focuses on the following:

- Ensuring competitive rewards are provided to attract and retain executive talent;
- Linking remuneration to performance so that higher levels of performance attract higher rewards;
- Aligning rewards of all staff, but particularly executives, to the creation of value to shareholders;
- Making sure the criteria used to assess and reward staff include financial and non-financial measures of performance;
- Ensuring the overall cost of remuneration is managed and linked to the ability of the Company to pay; and

- Ensuring severance payments due to the Chief Executive Officer on termination are limited to pre-established contractual arrangements which do not commit the Group to making any unjustified payments in the event of non-performance.

## 3. Relationship between the remuneration policy and company performance

The main objective in rewarding the Company's executives for their performances is to ensure that shareholders' wealth is maximised through the Company's continued growth moving forward. It is necessary to structure and strengthen this focus to drive this strategy so that they are aligned with the Company's objectives and successes.

Under the remuneration policy, Senior Management's remuneration includes a fixed remuneration component, short-term and long-term incentive arrangements. The long-term incentives are based on CCL's performance for the year in reference to specific Earnings Per Share (EPS) hurdles being met. The short-term incentives are based on the individual's performance in the preceding 12 months compared to pre-agreed goals.

Where Senior Management is remunerated with shares, the Remuneration Policy places no limitations to their exposure to risk in relation to the shares. Target incentive remuneration refers to the incentive pay provided for meeting performance requirements. Actual incentive remuneration can vary for Executive Directors and Senior Management depending on the extent to which they meet performance requirements.

In accordance with the Company's corporate governance, the structure of Non-Executive Director and executive remuneration is separate and distinct.

## 4. Non-Executive Director remuneration

### • Objective

The Board seeks to set aggregate remuneration at a level that provides the Company with the ability to attract and retain directors of the highest calibre, whilst incurring a cost that is acceptable to shareholders.

### • Structure

The Constitution and the ASX Listing Rules specify that the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. Clause 63.2 of the Constitution provides an aggregate maximum amount of not more than \$750,000 per year.

### • Directors' fees

Each Director receives a fee for being a Director of Group companies and an additional fee is paid to the Chairman and to the Chairman of each Board Committee. The payment of the additional fees to each Chairman recognises the additional time commitment and responsibility associated with the position.

## 5. Remuneration of Executive Directors and Senior Management

### • Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company so as to:

- Reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of stakeholders;
- Link rewards with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

### • Structure

In determining the level and make-up of executive remuneration, the CEO seeks independent advice regarding market levels of remuneration for comparable executive roles.

Remuneration packages include a mix of fixed and variable remuneration and short and long-term performance-based incentives. The proportion of fixed and variable remuneration is established for each executive by the CEO after consultation with the Nomination & Remuneration Committee. While the allocation may vary from period to period, the table below details the approximate fixed and variable components for the executives.

### (a) Fixed remuneration

Fixed remuneration consists of base remuneration (which is calculated on a total cost basis and includes any FBT charges related to employee benefits including motor vehicles), as well as employer contributions to superannuation funds. This is reviewed annually by the CEO and the process consists of a review of Company, business unit and individual performance as well as relevant comparative remuneration in the market. The same process is used by the Nomination & Remuneration Committee when reviewing the fixed remuneration of the CEO.

The CEO and senior executives are given the opportunity to receive their fixed (primary) remuneration in a variety of forms including cash and salary sacrifice items such as motor vehicles, motor vehicle allowances and/or additional superannuation contributions. It is intended that the manner of payment chosen will be optimal without creating undue cost for the Group but always contained in their respective fixed total remuneration.

### (b) Variable remuneration

Under CCL's Senior Management Remuneration Policy, long and short-term performance incentives may be made under the Company's incentive plans. These are discussed further below.

#### (b)(i) Short-term incentives (STI)

The objective of the STI program is to link the achievement of the Group's operational and financial targets with the remuneration received by the executives charged with meeting those targets. The total potential STI available is set at a level so as to provide sufficient incentive to the executive to achieve operational targets and such that the cost to the Group is reasonable in the circumstances.

% of Total Target Annual Remuneration		
	Fixed Remuneration	Variable Remuneration
	%	%
<b>Executive Directors</b>		
Mr J.C. Huljich	74%	26%
Mr J.E. McBain	74%	26%
<b>Senior Management</b>		
Mr M.J. Coy	74%	26%
Mr T.D. Reid	77%	23%
Mr. D.B. Govey	77%	23%

# Remuneration Report for the year ended 30 June 2012 (continued)

## Performance Rights Plan (PRP)

At the 2009 AGM, shareholders approved the issue of up to 3 million Performance Rights for nil consideration. The PRP applies to executive directors, senior management and other employees within the Group.

A Performance Right represents the right to subscribe for or acquire one CCL share in the Company for nil consideration (unless otherwise determined by the Board at the time of grant). Performance Rights may not be transferred, or encumbered without the approval of the Board and will not be listed for quotation on any stock exchange.

The Board may determine from time to time the performance conditions (if any) that will apply to Performance Rights. Only Performance Rights which satisfy these conditions or which vest following a Change of Control Event will vest and become exercisable.

Only persons employed on the relevant Performance Rights Grant Date by the Company or one of its subsidiaries will be eligible to receive a grant of Performance Rights. The Performance Rights of an eligible employee will be forfeited upon termination of the eligible employee ceasing to be an employee or director of the Company (other than as a result of certain circumstances such as death, total and permanent disability or redundancy or the sale of a CCL company or business which employs the CCL employee or as otherwise determined by the Board).

The PRP has two parts:

### (i) Compensation Performance Rights

These were designed to compensate eligible employees for salary reductions made as of 1 May 2009, with the number of Performance Rights issued determined by reference to the salary reductions from 1 May 2009 to 30 June 2010. The number of Compensation Performance Rights issued in respect of the 2011 financial year was 685,308 at a price of \$0.52.

### (ii) Incentive Performance Rights

These provide eligible employees with a short-term incentive, and the Board may elect to award an employee with either Performance Rights or a cash bonus or a combination of both, bearing in mind the total remuneration the employee is awarded in a particular year.

The Performance Rights will vest on, and are exercisable after, dates specified at the time of grant subject (other than for Compensation Performance Rights) to the achievement of certain performance hurdles by the Company. If the capital of the Company is reconstructed then the hurdles will be adjusted as necessary for the plan.



	Performance Rights Grant Date	Number of Performance Rights Granted	EPS Hurdle	Vesting Date
Compensation Performance Rights	10 February 2010	0.7 million	No EPS hurdle	1 July 2010
Incentive Performance Rights	30 June 2010	0.3 million	8.96 cents	30 September 2010
Incentive Performance Rights	30 June 2011	0.7 million	7.50 cents (i)	30 June 2011
Incentive Performance Rights	30 June 2012	-	8.0 cents (ii)	-
Incentive Performance Rights	30 June 2013	-	(iii)	(iii)

(i) Based on underlying net profit after tax.

(ii) Based on underlying net profit after tax, the EPS hurdle wasn't met at 30 June 2012; hence no performance rights were issued.

(iii) EPS hurdle and vesting date will be set prior to the time of grant. There are 1.3 million performance rights available for potential future issuance by the Nomination and Remuneration Committee.

## (b)(ii) Long-term Incentives (LTI)

An Executive Option Plan (EOP) was approved at the 2009 AGM. The EOP represents the long-term incentive for senior executives. The award of Executive Options under this plan was subject to EPS hurdles and a vesting date of 30 June 2012. The EPS hurdles have not been met and therefore all executive options have now expired.

### • Objective

The Company aims to reward all other employees with a level of remuneration commensurate with their position and responsibilities within the Company and ensuring that it is competitive by market standards.

### • Structure

In determining the level of all other employees' remuneration, the CEO may seek independent advice regarding market levels of remuneration for comparable roles. Remuneration packages are fixed and inclusive of statutory superannuation contributions. After completion of a qualifying period, employees may be eligible to participate in the Company's incentive programs which will vary from time to time depending on company policies and the changing needs of the business. Bonus payments are determined at the absolute discretion of the Company. Eligible employees will be advised annually of their participation in any bonus program.

CCL's overall objective is to reward senior management based on the Company's performance and build on shareholders' wealth but this is subject to market conditions for the year. The table below sets out summary information about the Group's earnings for the five years to June 2012:

## Summary of earnings

	30 June 2012 \$'000	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2009 \$'000	30 June 2008 \$'000
Total income	46,239	51,804	51,583	73,447	55,344
Net profit/(loss) before tax	3,702	1,347	12,880	(19,527)	(1,065)
Net profit/(loss) after tax	1,967	(2,891)	6,318	(12,413)	(2,707)

	30 June 2012	30 June 2011	30 June 2010	30 June 2009	30 June 2008
Share price at start of year	\$0.57	\$0.52	\$0.42	\$0.91	\$2.22
Share price at end of year	\$0.42	\$0.57	\$0.52	\$0.42	\$0.91
Interim dividend	1.25cps (i)	2.5cps	2.5cps	0.0cps	5.0cps
Final dividend	0.0cps	3.5cps	2.5cps	0.0cps	3.0cps
Basic earnings per share	2.5cps	(3.7)cps	9.3cps	(21.4)cps	(4.6)cps
Diluted earnings per share	2.5cps	(3.7)cps	8.4cps	(21.4)cps	(4.6)cps

(i) 30 June 2012: franked to 100%.

## Remuneration Report for the year ended 30 June 2012 (continued)

### Remuneration of Directors and Senior Management (continued)

Remuneration for the year ended 30 June 2012:

	Short-Term Employee Benefits			
	Salaries \$	Fees \$	Bonus \$	Car Allowance \$
<b>Directors</b>				
R.W. Dobson	-	91,700	-	-
J.E. McBain	486,000	-	-	-
J.C. Huljich	335,973	-	-	20,000
P.J. Done	-	100,000	-	-
D.K. Gupta	-	75,000	-	-
Sub-total	821,973	266,700	-	20,000
<b>Senior Management</b>				
M.J. Coy	334,225	-	-	-
T.D. Reid	207,872	-	-	-
D.B. Govey	295,780	-	-	-
Sub-total	837,877	-	-	-
<b>Grand total</b>	<b>1,659,850</b>	<b>266,700</b>	<b>-</b>	<b>20,000</b>

No Directors or Senior Management person appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

### Valuation of Performance Rights for Directors and senior management

The value of the Performance Rights granted in 2012 was \$nil (2011: \$136,064).

### Non-Executive Directors' Remuneration

The aggregate Non-Executive Directors' remuneration paid in 2012 was \$332,450 (2011: \$332,450).



Post Employment Benefits		Share-Based Payment		
	Superannuation \$	Performance Rights \$	Options \$	Total \$
	50,000	-	-	141,700
	24,000	-	-	510,000
	17,027	-	-	373,000
	9,000	-	-	109,000
	6,750	-	-	81,750
	106,777	-	-	1,215,450
	15,775	-	-	350,000
	18,534	-	-	226,406
	24,220	-	-	320,000
	58,529	-	-	896,406
	<b>165,306</b>	<b>-</b>	<b>-</b>	<b>2,111,856</b>

# Remuneration Report for the year ended 30 June 2012 (continued)

## Remuneration of Directors and Senior Management (continued)

Remuneration for the year ended 30 June 2011:

	Short-Term Employee Benefits			
	Salaries \$	Fees \$	Bonus \$	Car Allowance \$
<b>Directors</b>				
R.W. Dobson	-	130,000	-	-
J.E. McBain	354,243	-	100,000	20,000
J.C. Huljich	253,008	-	71,000	20,000
P.J. Done	-	100,000	-	-
D.K. Gupta	-	75,000	-	-
Sub-total	607,251	305,000	171,000	40,000
<b>Senior Management</b>				
M.J. Coy	256,881	-	-	-
T.D. Reid	200,279	-	-	-
D.B. Govey	219,450	-	-	-
Sub-total	676,610	-	-	-
<b>Grand total</b>	<b>1,283,861</b>	<b>305,000</b>	<b>171,000</b>	<b>40,000</b>

No Directors or senior management person appointed during the period received a payment as part of his or her consideration for agreeing to hold the position.

## Performance Rights

In accordance with the October 2009 AGM, performance rights were also granted to staff instead of cash bonuses, in respect of the 2011 year.

Post Employment Benefits		Share-Based Payment		
	Superannuation \$	Performance Rights \$	Options \$	Total \$
	11,700	-	-	141,700
	33,682	-	26,606	534,531
	24,571	-	17,737	386,316
	9,000	-	-	109,000
	6,750	-	-	81,750
	85,703	-	44,343	1,253,297
	23,119	69,609	14,412	364,021
	17,070	6,986	4,434	228,769
	19,750	59,469	4,434	303,103
	59,939	136,064	23,280	895,893
	<b>145,642</b>	<b>136,064</b>	<b>67,623</b>	<b>2,149,190</b>

# Remuneration Report for the year ended 30 June 2012 (continued)

## 6. All other employees' remuneration

Performance rights of \$nil were granted to staff in respect of the 2012 year (\$230,981 in respect of the 2011 year).

## 7. Key terms of employment contracts

### CEO

Mr John McBain, was appointed as CEO of CCL in April 2008. He is also an Executive Director of CCL. Mr McBain is employed under contract. The summary of the major terms and conditions of Mr McBain's employment contract are as follows:

- Fixed compensation plus superannuation contributions.
- Car parking within close proximity to CCL's office.
- Eligible to participate in the bonus program determined at the discretion of the Board.
- CCL may terminate this employment contract by providing 6 months written notice or provide payment in lieu of the notice period. Any payment in lieu of notice will be based on the Total Fixed Compensation Package.
- CCL may terminate the employment contract at any time without notice if serious misconduct has occurred. When termination with cause occurs the CEO is only entitled to remuneration up to the date of termination.

### Other executives (standard contracts)

All executives are employed under contract. The Company may terminate the executive's employment agreement by providing 1- 6 months written notice or providing payment in lieu of the notice period (based on the Total Fixed Compensation package).

Upon a participant's termination of employment with CCL, the unvested and vested performance rights of the participant will be dealt with as specified in the table below.

Type of Termination	Unvested Rights	Vested Rights
Redundancy or retrenchment	Lapse after 12 months from date of termination of employment.	Lapse after 60 days from the date of termination.
Special circumstances (death or disability)	Lapse.	Lapse after 180 days from the date of termination.
Dismissal for serious misconduct (e.g. fraud)	Lapse.	Lapse from the date of termination.
Termination in any other instance (e.g. Resignation)	Lapse.	Lapse from the date of termination.

On behalf of the Board



**R.W. Dobson**  
Chairman



**P.J. Done**  
Director  
Chairman - Audit, Risk Management & Compliance Committee



*Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001*

To: the directors of Centuria Capital Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2012 there have been:

- (i) no contraventions of the auditor independence requirements as set out in the Corporations Act 2001 in relation to the audit; and
- (ii) no contraventions of any applicable code of professional conduct in relation to the audit.

A stylized signature of the KPMG firm, written in black ink.

KPMG

A handwritten signature of Steven Gatt, written in black ink.

Steven Gatt  
*Partner*

Sydney

24 August 2012

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

# 2012 Corporate Governance Statement

This statement sets out the eight core principles identified by the ASX Corporate Governance Council (the Council) as underlying good corporate governance and outlines the approach of Centuria Capital Limited (Centuria, CCL or the Company) to each of the principles.

As recognised by the Council, corporate governance is the system by which companies are directed and managed. It influences how the objectives of the company are set and achieved, how risk is monitored and assessed and how performance is optimised. There is no single model of good corporate governance. At Centuria, corporate governance will evolve with our changing circumstances and will be tailored to meet those circumstances.

## Principle 1: Lay solid foundations for management and oversight

### The Role of the Board

The Board of Directors is responsible for setting the strategic direction and establishing the policies of Centuria. It is responsible for overseeing the financial position, and for monitoring the business and affairs of Centuria on behalf of the shareholders, by whom the directors are elected and to whom they are accountable. It also addresses issues relating to internal controls and approaches to risk management. It ensures that there are processes in place to conform to legal requirements and corporate governance standards and that risk exposures are adequately managed.

For full details of the role of the Board please refer to our Board Charter, a link to which is contained under the Corporate Governance page of our website.

### Delegation to Senior Executives

The role of the Chief Executive Officer (CEO) and Senior Executives is to manage Centuria in accordance with the direction given by the Board. The CEO's responsibilities include:

- Formulating and reviewing, with the Board, the vision and strategy for Centuria;
- Developing actions and plans to achieve the vision and implement the strategy and to report to the Board on the progress against those plans;
- Appointing a management team and negotiating terms and conditions of their employment; and
- Approving the remuneration levels of all staff

### Performance review of Senior Executives

The performance of the CEO is reviewed periodically by the Nomination and Remuneration Committee and the Board. This assessment is made against pre-determined criteria including Key Performance Indicators relating to Centuria's performance as determined in Centuria's Strategic Plan.

Performance reviews of Senior Executives are carried out by the CEO who reports the findings to the Nomination and Remuneration Committee. The CEO conducts the reviews each year by comparing performance against agreed measures, evaluating any efficiencies or improvements during the course of the year and deciding upon targets for next year.

## Principle 2: Structure the Board to add value

### Directors

The Directors' Report in the Annual Report contains details of the directors' skills, experience and qualifications. It also states the date the individual Director was appointed to the Board, their status as Non-Executive or Executive Directors and the committees on which they sit. The Directors seek to ensure the Board consists of Directors with an appropriate range of experience, skills, knowledge and vision to enable it to operate Centuria's business with excellence. The number of Directors is limited by Centuria's constitution to a minimum of 5 and a maximum of 13. The Board considers that the ideal size is 5 to 8 directors. There have been no new appointments to the Board since 2007. Any future new appointments shall continue to adhere to Centuria's desire to maintain the appropriate skills, experience and qualification mix, keeping in mind a commitment to diversity of gender and background.

Currently the Board consists of 5 Directors. Three of the five Directors, namely Roger Dobson, Peter Done and Deepak Gupta are considered to be independent as per independence criteria set out in the Board Charter. The three Independent Directors do not have relationships with Centuria which affect their independent status, such as substantial shareholdings or direct employment. They do not provide material professional consultancy services, they are not a material supplier or customer and they do not have a material contractual relationship with Centuria or other group member except as a Director. Our CEO, John McBain and Jason Huljich are Executive Directors. Directors are required to disclose at each Board meeting any interests that may affect their independence. Independent directors reconfirm their independent status to the Board by way of a written confirmation on an annual basis.

Directors are selected and appointed in accordance with documented procedures. For full details on the procedures for the selection and appointment of directors please see our policy, a link to which is contained under the Corporate Governance page of our website.

### Chairman

Centuria's Chairman, Roger Dobson is considered to be an Independent Director for the reasons given above. There is a clear division of responsibility at the head of the Company as the roles of Chairman and the CEO are not performed by the same person. The Board Charter also provides that the Chairman shall be an Independent Non-Executive Director. A Statement of Position Authority is in place for the CEO which details the responsibilities and authorities for that position.

### Nomination & Remuneration Committee

The Nomination and Remuneration Committee formulates criteria for appointment of directors to the Board, identifies potential candidates and recommends remuneration of Directors and senior management. A link to the charter of the Nomination and Remuneration Committee can be found on the Corporate Governance page of our website. Specific activities of the Nomination and Remuneration Committee include:

- Annual review of Board composition to ensure that the necessary skills are represented, together with the appropriate continuity and balance;



- Assessment of the effectiveness and composition of Board committees;
- Regular evaluation of the performance of the CEO;
- Recommending remuneration for Non-Executive Directors;
- Recommending a competitive remuneration and reward program for the CEO and other senior management; and
- Ensuring that other human resource management programs, including performance assessment programs, are in place.

The Nomination and Remuneration Committee consists of three Directors, all of whom are independent and is chaired by an Independent Director. Details of membership of the Nomination and Remuneration Committee including meeting attendance is set out in at the end of the Corporate Governance Statement. Each Director's skills, experience and expertise is contained in the Directors' Report.

### Board performance

The Board reviews and assesses its performance each year. Detailed consideration is given to the following areas:

- The Board's composition;
- The operations and effectiveness of the Board and its Committees;
- Decision making processes, including agendas, frequency of meetings and content of papers;
- Communications between Board and Executives;
- Determination of company strategy; and
- The Board's policies for Board renewal.

Continuing education to update and enhance Director knowledge is seen as an important factor in ensuring optimum performance by each Director.

Clause 5 of the Board Charter gives directors the authority to seek professional advice as considered necessary in the performance of its duties at Centuria's expense. The Directors also have full access to the Company Secretary to assist them to carry out their role.

### Re-election of Directors

The Company's constitution stipulates that a number of Directors not exceeding one-third of their number should retire by rotation at each Annual General Meeting (AGM). A Director must offer themselves for re-election at the third AGM since their election or re-election. The CEO, if also a Director, is not subject to the retirement by rotation process, and is not included when calculating the number of directors required to retire by rotation.

## Principle 3: Promote ethical and responsible decision-making

### Code of Conduct

The Board has established a Directors' and Employee Code of Conduct that sets the standard by which all officers and employees of the company are to conduct themselves in the course of their duties. Potential breaches of the Code of

Conduct can be reported to management, the Audit, Risk Management & Compliance Committee or an external auditor using the guide outlined in Centuria's Whistleblower Policy. A link to the Code of Conduct can be found under the Corporate Governance page of our website.

### Trading in Centuria's securities

The Board has established a policy concerning trading in Centuria's securities by Directors, Officers and employees. The policy prohibits Directors and employees trading in Centuria's securities if they are aware of any price sensitive information and also, at nominated times when a 'black-out period' is imposed. A link to Centuria's Directors & Employees' Securities Trading Policy can be found under the Corporate Governance page of our website.

### Diversity at Centuria

Amendments to the ASX Corporate Governance Principles and Recommendations have focussed the Board's attention on formalising into policy the Company's belief that a diverse workforce with equality of opportunity will achieve strong business results. Measurable targets to achieve Centuria's diversity objectives are currently under consideration by the Board. Once adopted, progress toward realising the targets will be reported on an annual basis. Whilst ultimately all new appointments, whether of a Director or an employee will be made on the basis of merit, meeting the targets will provide evidence of the effectiveness of the policy.

## Principle 4: Safeguard integrity in financial reporting

### Audit, Risk Management and Compliance Committee

Our Audit, Risk Management & Compliance Committee consists of three Independent Directors and is chaired by an independent chair who is not the chair of Centuria's Board. All members are financially literate either holding financial or accounting qualifications and/or having professional experience in a financial or accounting related field. The Committee chairman, Peter Done is a chartered accountant with over 40 years of experience. Deepak Gupta has 20 years' experience in the financial services and investment management industry. The third member of the committee, Roger Dobson is a senior partner in the banking and finance practice at the legal firm of which he is a partner. The Committee meets at least six times per year. The external and internal auditors of the Group attend on a regular basis. Detail of the Audit, Risk Management & Compliance Committee member's names, appointment date, status, qualifications and meeting attendance is set out at the end of this Corporate Governance Statement.

### Charter

The Board has formulated an Audit, Risk Management & Compliance Committee Charter, a link to which is contained under the Corporate Governance page of our website

### External auditor

Procedures have been established in relation to the external auditor selection, appointment and lead partner rotation. A link to the procedures relating to the external auditor selection, appointment and lead partner rotation can be found under the Corporate Governance page of our website.

# Corporate Governance Statement (continued)

## Principle 5: Make timely and balanced disclosure

The Company has policies and procedures on information disclosure. The focus of these policies and procedures is to effect Centuria's commitment to:

- Comply with the general and continuous disclosure principles contained in the ASX Listing Rules and the Corporations Act;
- Prevent the selective or inadvertent disclosure of price sensitive information;
- Ensure that shareholders and the market are provided with full and timely information about its activities; and
- Ensure that all market participants have equal opportunity to receive externally available information issued by Centuria.

A summary of our Continuous Disclosure Policy can be found under the Corporate Governance page of our website.

Responsibility for compliance with Centuria's continuous disclosure obligations rests with the Company Secretaries. Price sensitive information is publicly released through the ASX before disclosing it to analysts or others outside the company. Information is posted on Centuria's website as soon as reasonably practicable after the Stock Exchange confirms an announcement has been made, with the aim of making the information accessible to the widest audience.

## Principle 6: Respect the rights of shareholders

Centuria aims to provide prompt, accurate and accessible information to its shareholders. It has established a Communications Policy detailing steps to be taken to achieve this objective, a copy of which can be viewed under the Corporate Governance page of our website. The main mechanisms through which Centuria communicates with its shareholders are:

- The Annual Report and Half-Year Financial Reports;
- Announcements made to the Australian Stock Exchange;
- The Annual General Meeting (AGM);
- Notices and explanatory memoranda of AGMs; and
- Centuria's website [www.centuria.com.au](http://www.centuria.com.au).

Centuria's website forms an important part of the strategy for communicating with shareholders. Centuria's website has a shareholders page which includes share details, company reports, company announcements and press releases (including copies of any significant presentations made to analysts), and items relating to AGMs.

In designing notices and explanatory statements / memoranda of AGMs, Centuria gives consideration to the guidelines given by the ASX Corporate Governance Council in its Corporate Governance Principles and Recommendations.

At the time of providing a notice of meeting and explanatory memoranda for the AGM a form is provided for shareholders to mail back to Centuria if they wish to raise any issues. At the AGM, the Company will, where appropriate, endeavour to address issues raised by shareholders in these forms. During the course of the AGM the floor is opened for questions.

## Principle 7: Recognise and manage risk

The Centuria Board has established a Risk Management Framework for the Group, a summary of which can be viewed under the Corporate Governance page of our website. Risk management is an integral part of the governance of Centuria and is one of the main responsibilities of the Board and Senior Management. The Board is ultimately responsible for approving and reviewing Centuria's Risk Management Framework. The monitoring and management of risk on an ongoing basis is the responsibility of management as represented by the heads of the respective business units of Centuria.

At Centuria, managing risk is a continuous process for both Management and the Board. Centuria's comprehensive risk management framework requires a detailed annual business risk review, which seeks to define all the major risks that could prevent or impact the Company from achieving its objectives. This review has been completed for this financial year and the Board has accepted Management's report that material business risks have been managed effectively.

The management of risk is continually addressed during the year at the business unit level. Periodically, a review of the effectiveness of Centuria's risk management framework is undertaken. Combined with this, is an embedded compliance culture to ensure Centuria meets the requirements of the Australian Securities and Investments Commission for conducting a financial services business and operating managed investment schemes. A robust compliance framework has been implemented which requires the business to monitor its activities and those of its outsourced service providers. The compliance function at Centuria reports directly to the Audit, Risk Management & Compliance Committee and the Board.

An outsourced internal audit function has also been established with a focus on Centuria's control environment. The annual internal audit plan is determined having regard to the risk profile of the business arising from the annual business risk review.

The Audit, Risk Management & Compliance Committee has the following risk management responsibilities:

- Assessing risks arising from the Group's operations and ensuring the adequacy of measures taken to moderate those risks;
- Reviewing and assessing the effectiveness of the Group's Risk Management Framework and internal control practices and ensure there is a continuous process for the management of significant risks throughout the Group; and
- Monitoring compliance with the Company's Risk Management Framework.

Quarterly risk management reporting is provided to the Audit, Risk Management and Compliance Committee by management.

The CEO and CFO have declared in writing to the Board for both the half-year and full-year financial statements that the declaration provided in accordance with section 295A of the Corporations Act is founded on a sound system of risk management and internal control and that the system is operating effectively in all material respects in relation to financial reporting risks.

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## Principle 8: Remunerate fairly and responsibly

### Nomination & Remuneration Committee

The Nomination and Remuneration Committee consists of three Directors, all of whom are independent and is chaired by an independent Director. Detail of membership of the Nomination and Remuneration Committee including meeting attendance is set out at the end of this Corporate Governance Statement.

Remuneration related responsibilities of the Nomination and Remuneration Committee include:

- Recommending fees for Directors;
- Recommending a competitive remuneration and reward program for the CEO and other senior management; and
- Ensuring that other human resource management programs, including performance assessment programs and incentive schemes, are in place.

Centuria recognises the important role people play in the achievement of its long-term objectives and as a key determinant of competitive advantage. To grow and be successful, Centuria must be able to attract, motivate and retain capable individuals.

### Senior Executive remuneration structure

The key principles that underpin Centuria's Senior Executive Remuneration Policy are:

- Competitive rewards are provided to attract and retain executive talent;
- Remuneration is linked to performance so that higher levels of performance attract higher rewards;
- Rewards to all staff but particularly executives are linked to the creation of value to shareholders;
- The criteria used to assess and reward staff include financial and non-financial measures of performance;
- The overall cost of remuneration is managed and linked to the ability of the company to pay; and
- Severance payments due to the CEO on termination are limited to pre-established contractual arrangements which do not commit the Group to making any unjustified payments in the event of non-performance.

The remuneration policy assists Centuria to achieve its business strategy and objectives. Centuria recognises that, while remuneration is a key factor in recruiting the right people, it is not the only factor. Centuria's values and its ability to provide interesting and challenging career opportunities, also play an important role.

### Non-Executive Director remuneration structure

The Board has established a policy relating to the remuneration of Non-Executive Directors. Centuria pays Non-Executive Directors fees at a level which is sufficient to attract individuals with the appropriate skills, and to fairly reimburse those Directors for services provided. Non-Executive Directors' remuneration does not include incentive schemes or performance related payments.

Executive Directors are paid a salary commensurate with their position and responsibilities and at a level which attracts high calibre executives with appropriate skills and experience. Executive Directors also participate in Centuria's long-term and short term incentive plans.

Further information regarding Director and senior executive remuneration can be found in the Remuneration Report.

## Directors' Declaration for the year ended 30 June 2012

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### The Directors declare that:

- (a) in the Directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) in the Directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity;
- (c) in the Directors' opinion, the financial statements and notes thereto are in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board as stated in Note 2 to the financial statements; and
- (d) the Directors have been given the declarations required by s.295A of the Corporations Act 2001.

Signed in accordance with a resolution of the Directors made pursuant to s.295(5) of the Corporations Act 2001.

### On behalf of the Directors



**R.W. Dobson**

**Chairman**



**P.J. Done**

**Director**

**Chairman - Audit, Risk Management  
& Compliance Committee**

**Sydney  
24 August 2012**



# Statement of Comprehensive Income for the financial year ended 30 June 2012

Consolidated			
	Note	2012 \$'000	2011 \$'000
Revenue	3(i)	32,131	32,696
Centuria Life revenue	3(iii)	12,629	13,453
Net (loss)/revenue from Benefit Funds	3(iii)	(398)	3,689
Other income	3(ii)	1,877	1,966
<b>Total income</b>		<b>46,239</b>	<b>51,804</b>
Finance costs	4	(16,139)	(16,768)
Employee benefits expense	5(a)	(8,893)	(7,186)
Administrative and other expenses	5(b)	(10,024)	(12,904)
Centuria Life expenses	3(iii)	(4,874)	(4,316)
Share of loss of associates	12	(2,607)	(840)
Impairment of investments in associates	12	-	(3,933)
Devaluation of investment properties	5(c)	-	(4,510)
<b>Profit before tax</b>		<b>3,702</b>	<b>1,347</b>
Income tax expense relating to shareholders	6(a)	(2,133)	(549)
Income tax benefit/(expense) relating to Benefit Funds	3(iii)	398	(3,689)
Total income tax expense	6(a)	(1,735)	(4,238)
<b>Profit/(Loss) for the year</b>		<b>1,967</b>	<b>(2,891)</b>
<b>Other comprehensive income:</b>			
Gain on cash flow hedges taken to equity		885	1,032
Share of other comprehensive income of associates		-	1,204
Income tax relating to components of other comprehensive income	6(b)	(207)	(671)
Other comprehensive income for the year (net of tax)		678	1,565
<b>Total comprehensive income/(loss) for the year</b>		<b>2,645</b>	<b>(1,326)</b>
<b>Earnings per share</b>			
Basic (cents per share)	7	2.5	(3.7)
Diluted (cents per share)	7	2.5	(3.7)

The Consolidated result aggregates the financial results of the Centuria Capital Limited corporate entities and the Benefit Funds (refer to Note 2(a)).



# Statement of Financial Position as at 30 June 2012

Consolidated			
	Note	2012 \$'000	2011 \$'000
<b>Assets</b>			
Cash and cash equivalents	26	15,409	11,625
Trade and other receivables	8	11,377	10,854
Non current assets held for sale	10	15,000	-
Financial assets at fair value through profit and loss	9	399	2,331
Other financial assets	9	202,083	198,194
Prepayments		1,790	1,816
Investment property	11	-	22,500
Investment in associates	12	686	7,453
Plant & equipment	13	763	1,349
Assets in respect of Benefit Funds	20	465,280	509,450
Deferred tax assets	6(d)	9,906	9,494
Intangible assets	14	53,459	53,809
<b>Total Assets</b>		<b>776,152</b>	<b>828,875</b>
<b>Liabilities</b>			
Trade and other payables	15	5,769	5,492
Borrowings	16	180,919	196,899
Income tax payable	6(c)	6,277	5,663
Other liabilities	18	727	6,654
Derivative financial liabilities	19	25,758	13,531
Liabilities in respect of Benefit Funds	20	465,280	509,450
Provisions	17	1,046	705
<b>Total Liabilities</b>		<b>685,776</b>	<b>738,394</b>
<b>Net Assets</b>		<b>90,376</b>	<b>90,481</b>
<b>Equity</b>			
Contributed equity	21	90,276	100,235
Reserves	21	(667)	(868)
Retained earnings/(accumulated losses)	21	767	(8,886)
<b>Total Equity</b>		<b>90,376</b>	<b>90,481</b>

The Consolidated result aggregates the financial results of the Centuria Capital Limited corporate entities and the Benefit Funds (refer to Note 2(a)).

## Statement of changes in equity for the financial year ended 30 June 2012

Consolidated			
	Share Capital	Retained Earnings	Cash Flow Hedge Reserve
	\$'000	\$'000	\$'000
Balance at 1 July 2010	100,018	(2,203)	(2,067)
Profit for the year	-	(2,891)	-
Other comprehensive income for the year	-	-	722
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>(2,891)</b>	<b>722</b>
Issued during the year:			
Executive share option plan (note 21)	-	-	-
Employee share scheme (note 21)	558	-	-
Dividend Reinvestment Plan	1,030	-	-
Convertible notes (note 18)	359	-	-
Payment of dividends (note 22)	-	(3,792)	-
Share cancellation	(169)	-	-
Share buy-back	(1,561)	-	-
<b>Balance at 30 June 2011</b>	<b>100,235</b>	<b>(8,886)</b>	<b>(1,345)</b>
Balance at 1 July 2011	100,235	(8,886)	(1,345)
Profit for the year	-	1,967	-
Other comprehensive income for the year	-	-	678
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>1,967</b>	<b>678</b>
Issued during the year:			
Employee share scheme (note 21)	477	-	-
Dividend Reinvestment Plan	1,044	-	-
Payment of dividends (note 22)	-	(3,872)	-
Distributions (note 22)	-	78	-
Transfer to retained earnings (note 21)	(11,480)	11,480	-
<b>Balance at 30 June 2012</b>	<b>90,276</b>	<b>767</b>	<b>(667)</b>

The Consolidated result aggregates the financial results of the Centuria Capital Limited corporate entities and the Benefit Funds (refer to Note 2(a)).

Consolidated			
Share of Associates' Reserves	Share-based Incentive Reserve	Attributable to Equity Holders of the Parent	Total
\$'000	\$'000	\$'000	\$'000
(843)	738	95,643	95,643
-	-	(2,891)	(2,891)
843	-	1,565	1,565
<b>843</b>	<b>-</b>	<b>(1,326)</b>	<b>(1,326)</b>
-	(229)	(229)	(229)
-	(32)	526	526
-	-	1,030	1,030
-	-	359	359
-	-	(3,792)	(3,792)
-	-	(169)	(169)
-	-	(1,561)	(1,561)
-	477	<b>90,481</b>	<b>90,481</b>
-	477	90,481	90,481
-	-	1,967	1,967
-	-	678	678
-	-	<b>2,645</b>	<b>2,645</b>
-	(477)	-	-
-	-	1,044	1,044
-	-	(3,872)	(3,872)
-	-	78	78
-	-	-	-
-	-	<b>90,376</b>	<b>90,376</b>

# Statement of Cash Flows for the financial year ended 30 June 2012

Consolidated			
	Note	2012 \$'000	2011 \$'000
<b>Cash flows from operating activities</b>			
Interest received		661	927
Dividends received		61	-
Management fees received		20,224	19,414
Rent, trust distributions and other income received		7,804	15,614
Benefit Funds payments		(34,341)	(32,573)
Payments to suppliers and employees		(24,131)	(26,669)
Income tax (paid)/received		(1,719)	512
<b>Net cash used in operating activities</b>	<b>26</b>	<b>(31,441)</b>	<b>(22,775)</b>
<b>Cash flows from investing activities</b>			
Interest (paid) on residential mortgage bill facility		(9,198)	(9,920)
Drawdowns from residential mortgage bill facility		2,522	4,392
Benefit Funds receipts		51,248	16,666
Payments for plant and equipment		-	(522)
Proceeds from/(payments for) investments in other financial assets		4,175	(1,716)
Receipt from sales of financial assets		975	-
Payment for acquisition of intangible assets		-	(1,273)
<b>Net cash provided by investing activities</b>		<b>49,722</b>	<b>7,627</b>
<b>Cash flows from financing activities</b>			
Loans to related entities		(633)	(2,398)
Benefit Funds receipts/(payments)		1,008	(6,392)
Convertible notes payments		(5,684)	(840)
Payment for share buy-back		-	(1,733)
Repayments of residential mortgage loans		25,784	26,663
NAB working capital facility drawdowns		5,000	8,585
Repayment of residential mortgage bill facility		(13,295)	(16,147)
Net dividends and distributions paid		(2,825)	(3,792)
Financing other (paid)		(5,935)	(13,466)
<b>Net cash provided/(used in) by financing activities</b>		<b>3,420</b>	<b>(9,520)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>21,701</b>	<b>(24,668)</b>
<b>Cash and cash equivalents at the beginning of the financial year</b>		<b>30,700</b>	<b>55,368</b>
<b>Cash and cash equivalents at the end of the financial year</b>	<b>26</b>	<b>52,401</b>	<b>30,700</b>
<b>Cash attributable to benefit funds</b>	<b>26</b>	<b>36,992</b>	<b>19,075</b>
<b>Cash attributable to shareholders</b>	<b>26</b>	<b>15,409</b>	<b>11,625</b>
		<b>52,401</b>	<b>30,700</b>

The Consolidated result aggregates the financial results of the Centuria Capital Limited corporate entities and the Benefit Funds (refer to Note 2(a)).

# Notes to the Consolidated Financial Statements for the year ended 30 June 2012

## 1. General information

Centuria Capital Limited (the Company or CCL or Group) is a public company listed on the Australian Stock Exchange (trading under the symbol CNI), incorporated and operating in Australia.

CCL's registered office and its principal place of business are as follows:

Registered office	Principal place of business
Level 23, 111 Pacific Highway Sydney NSW 2060 Tel: 1300 50 50 50	Level 23, 111 Pacific Highway Sydney NSW 2060 Tel: 1300 50 50 50

The Company is a for-profit entity and its principal activities are the marketing and management of investment products, general insurance through agency arrangements, mortgage lending and property funds management.

## 2. Significant accounting policies

### Statement of compliance

The consolidated financial statements are general purpose financial statements which have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. The consolidated financial statements comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

The consolidated financial statements were authorised for issue by the directors on 24 August 2012.

### Basis of preparation

The financial statements have been prepared on the basis of historical cost, except for investment properties and those financial assets and financial liabilities which have been valued at fair value through profit or loss. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, which is the Company's functional currency, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise indicated.

### Going concern

The Directors have prepared the financial report on a going concern basis, which assumes continuity of normal business activities and the realisation of assets and the settlement of liabilities in the ordinary course of business. The going concern assumption has been formed after considering a number of factors including the cash-flow forecast of the business for the next 12 months, the availability of debt finance and projected covenant compliance.

## Critical accounting judgements and key sources of estimation uncertainty

In the application of the Group's accounting policies, management is required to make judgements, estimates and assumptions about carrying values of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

### Key judgements

Information about critical judgements in applying accounting policies that have the most significant effect on the amounts recognised in the financial statements is included in the following notes:

- note 11 - classification and valuation of investment property
- note 14 - goodwill
- note 27 - financial instruments

### Critical estimates in applying the entity's accounting policies

A Financial Condition Report was prepared by Centuria Life's Appointed Actuary, Mr Guy Thorburn, BEc, FIAA, ASA. This report covers Benefit Fund liabilities and prudential reserves. The effective date of the report is 30 June 2012.

The amount of the Benefit Fund liabilities has been determined in accordance with the methods and assumptions disclosed in this Financial Condition Report.

Policyholder liabilities for benefit funds, other than the Funeral Benefit Fund, are valued using the accumulation method and are equal to the contributions made by members, net of fees, together with bonus additions to date. The balance of the fund is the unvested policyholder benefit liabilities (or surplus). Each year's bonus declaration results in a movement from unvested policyholder benefit liabilities to the vested policy liability. The bonus rate is limited to ensure that the amount vesting is no more than the distributable portion of unvested policyholder benefit liabilities.

For the Funeral Benefit Fund, the policyholder liability has been taken to be the value of assets of the fund net of other liabilities less the value of the current period bonus. This liability represents the present value of guaranteed benefits (pre-bonus) plus the present value of future bonuses. Following declaration of the bonus, there would then be no surplus under this arrangement. The Society currently expects to deduct 1.50% of the fund's assets from investment earnings for expense allowances. It has been assumed that interest will be earned in future years at rates after tax sufficient at least to meet this level of expense.

## 2. Significant accounting policies (continued)

### Critical estimates in applying the entity's accounting policies (continued)

The main variables that determine the bonus rate for a Benefit Fund are the value of the net assets of each benefit fund at the end of the year, the amounts standing to the credit of each investment account through the previous year and the investment return (net of fees and taxes where applicable) earned by the fund throughout the year. The excess of the net assets of the benefit fund over the liabilities after meeting the prudential standards is the surplus that is generally able to be distributed to members as a bonus.

There is no provision in the funds' rules for any surplus to be transferred to the Management Fund. The Management Fund receives specified fee transfers from the funds to cover expenses. All remaining assets are to be used to provide benefits to members. Hence there is no profit and consequently, no need for a profit carrier.

Changes in economic conditions and demographics will alter the unallocated surplus. The Capital Requirements, as set by APRA, aim to ensure there is sufficient unallocated surplus to cover the effect of these changes.

### Change in accounting estimate

On 30 June 2011, the Group held a deferred unrealised swap gain of \$3.1m in respect of certain receivables included in its residential mortgage receivables (hedged item). Previously, this gain was being amortised on a 50 year straight line basis. On 1 July 2011 the Group revised the basis to align the amortisation with the progressive run down in the hedged item. The financial effect of this change in estimate in the current year was to increase profit before tax by \$0.65m.

### (a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including special purpose entities) controlled by the Company (its subsidiaries) (referred to as the 'Group' in these financial statements). Control is achieved where the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

CCL, as prescribed by AASB 1038 Life Insurance Contracts, is required to recognise the assets, liabilities, income, expenses and equity of the benefit funds which it manages, in its consolidated financial statements. The assets and liabilities of the Benefit Funds do not impact the net profit after tax of the equity holders of CCL.

CCL has majority representation on the Board of the Over Fifty Guardian Friendly Society Limited (Guardian). However, as Guardian is a mutual organisation, CCL has no legal rights to Guardian's net assets, does not derive any benefit from exercising its power and therefore does not control Guardian. It is, therefore, considered inappropriate to include Guardian in the consolidation.

Intra-group balances and transactions, and any unrealised income and expenses arising from intra-group transactions, are eliminated in preparing the consolidated financial statements. Unrealised gains arising from transactions with equity-accounted investees are eliminated against

the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

### (b) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as a liability are recognised in profit or loss. Changes in the fair value of contingent consideration classified as equity are not remeasured.

The interest of minority shareholders in the acquiree is initially measured at the minority's proportion of the net fair value of the assets, liabilities and contingent liabilities recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 Income Taxes and AASB 119 Employee Benefits respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with AASB 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.



- liabilities or equity instruments related to the replacement by the Group of an acquiree's share-based payment awards are measured in accordance with AASB 2 Share-based Payment; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date and is subject to a maximum of one year.

### **(c) Goodwill**

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer previously held equity interest in the acquiree (if any) over the net of the acquisition date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Group's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the excess is recognised immediately in the statement of comprehensive income as a bargain purchase gain.

Goodwill is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

The Group's policy for goodwill arising on the acquisition of an associate is described below (Note 2(d)).

### **(d) Investments in associates**

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting, except when the investment is classified as held for sale, in which case it is accounted for in accordance with AASB 5 Non-current Assets Held for Sale and Discontinued Operations. Under the equity method, investments in associates are carried in the consolidated statement of financial position at cost as adjusted for post-acquisition changes in the Group's share of the net assets of the associate, less any impairment in the value of individual investments.

The Group's investment in Centuria Direct Property Trust is accounted for using the equity method of accounting in the consolidated financial statements.

Any excess of the cost of acquisition over the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities of the associate recognised at the date of the acquisition is recognised as goodwill. The goodwill is included within the carrying amount of the investment and is assessed for impairment as part of that investment. Any excess of the Group's share of the net fair value of the identifiable assets, liabilities and contingent liabilities over the cost of the acquisition, after reassessment, is recognised immediately in profit or loss. Where a group entity transacts with an associate of the Group, unrealised profits and losses are eliminated to the extent of the Group's interest in the relevant associate.

### **(e) Goods and services tax**

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- for receivables and payables which are recognised inclusive of GST.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables.

Cash flows are included in the statement of cash flows on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified within operating cash flows.

### **(f) Revenue**

Revenue is measured at the fair value of the consideration received or receivable to the extent it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured.

### **Management fees**

Management fees are recognised on an accruals basis when the Group has the right to receive payment.

### **Dividend revenue**

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established (provided that it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably).

## 2. Significant accounting policies (continued)

### Interest revenue

Interest revenue is recognised when it is probable that the economic benefits will flow to the Group and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding using the effective interest rate method.

### Rental income

Rental income arising on investment properties is accounted for on a straight-line basis over the lease term. Lease incentives are amortised over the lease term and netted against rental income.

### Property acquisition income and sale performance fees

Property acquisition income is recognised when an investment property has been acquired in a fund managed by the Group.

Sale performance fee income derived from managed funds is recognised upon settlement of the sale of an investment property.

### Commission and application fee income

All commissions and application fee income is recognised on an accruals basis when the Group has the right to receive the payment.

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in note 32.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates with respect to non-market vesting conditions, if any, is recognised in profit for the year such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the equity-settled employee benefits reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

### (g) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

### Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit as reported in the consolidated profit or loss because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

### Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit.

Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised.

Deferred tax liabilities are not recognised if the temporary difference arises from the initial goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

## Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law as of 1 July 2003. CCL is the head entity in the tax-consolidated group. Tax expense/benefit, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using a 'stand-alone' approach based on the allocation specified in the tax funding arrangement.

The Benefit Funds are part of the tax consolidated group, and they are allocated a share of the income tax liability attributable to Centuria Life Limited equal to the income tax liability that would have arisen to the Benefit Funds had they been stand-alone.

## Current and deferred tax for the period

Current and deferred tax are recognised as an expense or income in profit or loss, except when they relate to items that are recognised outside profit or loss (whether in other comprehensive income or directly in equity), in which case the tax is also recognised outside profit or loss, or where they arise from the initial accounting for a business combination. In the case of a business combination, the tax effect is included in the accounting for the business combination.

### (h) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

Bank overdrafts are shown within borrowings in the statement of financial position.

### (i) Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value plus transaction costs, except for those financial assets classified as at fair value through profit or loss, which are initially measured at fair value.

## Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees on points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or (where appropriate) a shorter period, to the net carrying amount on initial recognition.

## Financial assets at fair value through profit and loss

Financial assets are classified as financial assets at fair value through profit or loss when the financial asset is either held for trading or it is designated as at fair value through profit or loss.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term;
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at fair value through profit or loss upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with investment strategy; or
- it forms part of a contract containing an embedded derivative.

Financial assets at fair value through profit and loss are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss incorporates any dividend or interest earned on the financial asset and is included in the statement of comprehensive income. Fair value is determined in the manner described in note 27.

## Other financial assets

Other financial assets include mortgage loans. Mortgage loans are held directly at amortised cost using the effective yield method except for mortgage loans held by the Benefit Funds which are measured at fair value through profit and loss. An allowance for impairment loss is made at year end for specific amounts when there is objective evidence that collection of the full amount is no longer probable. Bad debts are written off when identified.

## Derecognition of financial assets

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

## 2. Significant accounting policies (continued)

### Impairment of financial assets

Financial assets, other than those at fair value through profit and loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired where there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been affected.

When an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through the profit and loss.

### Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as 'loans and receivables'. Loans and receivables are measured at amortised cost using the effective interest method less impairment.

### (k) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is recognised so as to write off the cost or valuation of assets less their residual values over their useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at each year end, with the effect of any changes in estimate accounted for on a prospective basis.

The gain or loss arising on disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

The following useful lives are used in the calculation of depreciation:

**Plant and equipment**      3-5 years

### (l) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the non-current asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

When the Group is committed to a sale plan involving loss of control of a subsidiary, all of the assets and liabilities of that subsidiary are classified as held for sale when the criteria described above are met, regardless of whether the Group will retain a non-controlling interest in its former subsidiary after the sale.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

### (m) Investment property

Investment property, which is property held to earn rentals and/or for capital appreciation (including property under construction for such purposes), is measured initially at its cost, including transaction costs. Subsequent to initial recognition, investment property is measured at fair value. Gains and losses arising from changes in the fair value of the investment property are included in the statement of comprehensive income in the period in which they arise.

### (n) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred, using the effective interest method.

### (o) Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

#### Group as a lessor

Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised on a straight-line basis over the lease term.

#### Group as a lessee

Operating leases held by the Group are leases of office premises.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. In the event that lease incentives are granted as part of operating leases, the aggregate of such incentives are recognised as a reduction of rental income on a straight line basis over the life of the lease.



A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and long service leave when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities recognised in respect of short-term employee benefits, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

#### **(p) Employee benefits**

Liabilities recognised in respect of long-term employee benefits, are measured as the present value of the estimated future cash outflows to be made by the Group in respect of services provided by employees up to reporting date.

Contributions to defined contribution retirement benefit plans are recognised as an expense when employees have rendered service entitling them to the contributions.

#### **(q) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

#### **(r) Financial liabilities and equity instruments issued by the Group**

##### **Classification as debt or equity**

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with AASB 132 Financial Instruments.

##### **Equity instruments**

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised at the proceeds received, net of direct issue costs.

#### **(s) Derivative financial instruments**

The Group enters into derivative financial instruments such as interest rate swaps to manage its exposure to interest rate and equity price risk.

Derivatives are initially recognised at fair value at the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event, the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

#### **Embedded derivatives**

Derivatives embedded in other financial instruments or other host contracts are treated as separate derivatives when their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at fair value through profit or loss.

An embedded derivative is presented as a non-current asset or a non-current liability if the remaining maturity of the hybrid instrument to which the embedded derivative relates is more than 12 months and it is not expected to be realised or settled within 12 months. Other embedded derivatives are presented as current assets or current liabilities.

#### **Hedge accounting**

At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and hedged item, along with its risk management objectives and its strategy for undertaking the hedge. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument that is used in a hedging relationship is highly effective in offsetting changes in cash flows of the hedged item.

The Group designates certain derivatives as either hedges of fair value of recognised assets or liabilities (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

Note 27 sets out details of the fair values of the derivative instruments used for hedging purposes. Movements in the hedging reserve in equity are also detailed in the statement of changes in equity.

#### **Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the other expenses or other income line item.

Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item is recognised in profit or loss, in the same line of the statement of comprehensive income as the recognised hedged item. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously accumulated in equity are transferred from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability.

Hedge accounting is discontinued when the Group revokes the hedging relationship, when the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. Any gain or loss accumulated in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in equity is recognised immediately in profit or loss.

## 2. Significant accounting policies (continued)

### Fair value hedge

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in profit or loss immediately, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk. The change in the fair value of the hedging instrument and the change in the hedged item attributable to the hedged risk are recognised in the line of the statement of comprehensive income relating to the hedged item.

Hedge accounting is discontinued when the Group revokes the hedging relationship, the hedging instrument expires or is sold, terminated, or exercised, or when it no longer qualifies for hedge accounting. The fair value adjustment to the carrying amount of the hedged item arising from the hedged risk is amortised to profit or loss from that date.

### (t) Solvency and Capital Adequacy

Friendly Societies are required to hold prudential reserves over and above their policy liabilities, as a buffer against adverse experience and poor investment returns. The minimum level of reserves required to be held is laid down by the Life Insurance Act 1995 and accompanying actuarial standards. These standards are Actuarial Standard 2.03 and 3.03. These standards have been met as at 30 June 2012.

### (u) Product classification

The accounting treatment of certain transactions varies depending on the nature of the contract underlying the transaction. The major contract classifications are insurance contracts and investment contracts.

### Insurance contracts

Insurance contracts are those containing significant risk at the inception, or those where at the inception of the contract there is a scenario with commercial substance where the level of insurance risk may be significant. Once a contract has been classified as an insurance contract, it remains an insurance contract for the remainder of its lifetime, even if the insurance risk reduces significantly during the period.

### Investment contracts

Contracts not considered insurance contracts are classified as investment contracts. The accounting treatment of investment contracts depends on whether the investment has a Discretionary Participation Feature (DPF). DPF means a contractual right to receive, as a supplement to guaranteed benefits, additional benefits:

- (a) that are likely to be a significant portion of the total contractual benefits;
- (b) whose amount or timing is contractually at the discretion of the issuer; and
- (c) that are contractually based on:
  - (i) the performance of a specified pool of contracts or a specified type of contract;
  - (ii) realised and/or unrealised investment returns on a specified pool of assets held by the issuer; or

- (iii) the profit or loss of the Company, fund or other entity that issues the contract.

Applications and redemptions on investment contracts with a DPF are accounted for through profit or loss. The gross change in the liability to these policyholders for the period, which includes any participating benefits vested in policyholders and any undistributed surplus attributed to policyholders, is recognised through profit or loss.

Applications and redemptions on investment contracts without a DPF are accounted for through the statement of financial position as a movement in policyholder liabilities. Distributions on these contracts are charged to profit or loss as a movement in the policyholder liability. Premiums relating to the investment component are accounted for as a deposit through the statement of financial position.

### (v) Policyholders' funds

Assets held by the Benefit Funds are included in total assets in the statement of financial position of the Group. A corresponding liability labelled policyholders' funds is shown in total liabilities in the statement of financial position. Note 20 shows the movement in bonus funds (with DPF) and unit linked funds (without DPF).

The liability to bonus fund policyholders is closely linked to the performance and value of the assets (after tax) that back those liabilities. The fair value of such liabilities is therefore the same as the fair value of those assets after tax, on the basis charged to policyholders. In accordance with the rules of the funds, any remaining surplus is attributed to the policyholders of the fund. In accordance with AASB 1038 Life Insurance Contracts applications to these funds are recorded as income, redemptions from these funds and amounts distributable to policyholders are recorded as expenses.

The policyholders' funds liabilities for unit linked funds are equal to the number of units held, multiplied by the unit redemption price based on market value of the fund's investments as at the valuation date. Applications to these funds are not recorded as income, redemptions from these funds are not recorded separately as expenses, but amounts distributable to policyholders are recorded as an expense. No guarantees are provided by the Society in respect of the unit linked funds.

Claims incurred in respect of the Benefit Funds represent investment withdrawals (redemptions) and are recognised as a reduction in policyholder liabilities. Redemptions in respect of bonus funds are also disclosed as an expense as set out above.

Amounts received in respect of the Benefit Funds represent investment deposits (applications) and are recognised as an increase in policyholder liabilities. Applications in respect of bonus funds are also disclosed as revenue as set out above.

Benefit Fund expenses which are directly attributable to an individual policy or product are allocated directly to the benefit fund within which that class of business is conducted. The apportionment basis has been made in line with the principles set out in the Life Insurance Actuarial Standards Board (LIASB) Valuation Standard (Actuarial Standard AS1.04) and the apportionment is in accordance with Division 2 of Part 6 of the Life Act.



### (w) Unit prices

Unit prices are determined in accordance with the Benefit Fund's rules and are calculated as the net assets attributable to unit holders of the fund, divided by the number of units on issue.

### (x) New Accounting Standards and Interpretations

A number of new standards, amendments to standards and interpretations are effective from annual periods beginning after 1 July 2011 and have not been applied in preparing these consolidated financial except for:

- AASB 9 Financial Instruments which becomes mandatory for the Group's 2016 consolidated financial report and could change the classification and measurement of financial assets;
- AASB 10 Consolidated Financial Statements which becomes mandatory for the Group's 2013 consolidated financial report and widens the test of control and could result in more entities to be consolidated by the Group; and
- AASB 12 Disclosures of Interests in Other Entities which becomes mandatory for the Group's 2013 consolidated financial report and may increase the disclosure requirements of investments in subsidiaries.

The group is currently considering the financial impact of these accounting standard changes.

## 3. Revenue

The following is an analysis of the Group's revenue for the year:

	2012 \$'000	2011 \$'000
<b>(i) Revenue</b>		
Interest revenue	17,193	17,431
Dividend revenue	-	130
Management fees from property funds	10,703	10,255
Sale performance fees	1,055	1,561
Rental income	3,180	3,319
	<b>32,131</b>	<b>32,696</b>

	2012 \$'000	2011 \$'000
<b>(ii) Other income</b>		
<b>Other income</b>		
Commission received	1,234	1,248
Net gain arising on National Leisure Trust (i)	406	-
Other income	237	718
	<b>1,877</b>	<b>1,966</b>

	2012 \$'000	2011 \$'000
<b>Net gain arising on National Leisure Trust (i)</b>		
<b>Other income</b>		
Revaluation of non recourse borrowings to expected net proceeds on sale	7,970	-
Revaluation of investment property to expected net proceeds on sale	(7,530)	-
Net loss on cashflow hedge	(34)	-
	<b>406</b>	<b>-</b>

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## (iii) Centuria Life and Benefit Funds results

	Centuria Life Limited \$'000	Benefit Funds \$'000	2012 Total \$'000	2011 Total \$'000
<b>Income</b>				
Interest and dividend	538	24,049	24,587	27,644
Realised (losses)/gains	-	(900)	(900)	(102)
Unrealised (losses)/gains	-	(6,317)	(6,317)	5,085
Management fee income	12,091	-	12,091	13,058
Premiums (DPF only)	-	9,850	9,850	6,714
Other income	-	91	91	309
	<b>12,629 (i)</b>	<b>26,773</b>	<b>39,402</b>	<b>52,708</b>
<b>Expenses</b>				
Claims (DPF only)	-	46,877	46,877	49,093
Net movement in policyholder liabilities	-	(31,154)	(31,154)	(28,315)
Management fee expense	-	10,186	10,186	10,975
Bad debts - mortgage loans	-	1,262 (ii)	1,262	3,813
Management fund operating expenses	4,874	-	4,874	4,316
	<b>4,874 (i)</b>	<b>27,171</b>	<b>32,045</b>	<b>39,882</b>
<b>Profit before tax</b>	<b>7,755</b>	<b>(398) (i)</b>	<b>7,357</b>	<b>12,826</b>
Income tax expense/(benefit)	(3,268)	398 (i)	(2,870)	(7,374)
<b>Profit after tax</b>	<b>4,487</b>	<b>-</b>	<b>4,487</b>	<b>5,452</b>

(i) These numbers have also been included in the Consolidated Statement of Comprehensive Income. Refer to note 20 for further details in respect of the policyholders' funds relating to the Benefit Funds.

(ii) The profit before tax excluding the provision against the investments in commercial mortgages is \$864k.

## 4. Finance Costs

	2012 \$'000	2011 \$'000
<b>Interest expense:</b>		
NAB working capital facility	1,394	1,303
Reverse mortgage facility	11,583	12,446
Investment property facility	2,790	2,628
Other	88	193
	<b>15,855</b>	<b>16,570</b>
<b>Other:</b>		
Other finance costs	284	198
Loss/(gain) arising on derivatives in a designated fair value hedge accounting relationship	14,931	1,798
(Gain)/loss arising on adjustment to hedged items in a designated fair value hedge accounting relationship	(14,931)	(1,798)
	284	198
	<b>16,139</b>	<b>16,768</b>

## 5. Profit for the year before tax

Profit for the year includes the following expenses:

	2012 \$'000	2011 \$'000
<b>(a) Employee benefits expense</b>		
Wages and salaries	7,323	6,431
Executive share option plan	-	(221)
Superannuation	573	612
(Decrease)/increase in leave provisions	277	(37)
Termination benefits	-	54
Payroll taxes	398	350
Other associated personnel expenses	322	(3)
<b>Total employee benefits expense</b>	<b>8,893</b>	<b>7,186</b>

	2012 \$'000	2011 \$'000
<b>(b) General and administration expenses</b>		
Consulting & professional fees	1,933	2,692
Management fees	950	856
Brokerage (reversal)/fees	(236)	1,957
Provision for convertible notes payment	1,000	-
Bad debt expense (i)	1,454	1,158
Real estate expenses	71	787
Information systems expenses	426	436
Office administration expenses	508	346
Insurance expenses	357	342
Directors' fees	317	305
Membership subscriptions	16	18
Travel expenses	249	213
Depreciation and amortisation expense	733	636
Advertising & marketing expense	531	634
Rental expense - operating leases	867	793
Costs incurred in relation to rebranding	-	532
Costs incurred in relation to potential Opus acquisition	-	575
Other general expenses	736	565
Direct operating expenses of investment properties: Properties generating rental income	112	59
<b>Total general and administration expenses</b>	<b>10,024</b>	<b>12,904</b>

<b>(i) Bad debt expense:</b>		
CBGF1 loan, interest receivable, and leasing fee provision	1,282	-
Warwick Farm joint venture costs	172	-
Write-off of NLT rent receivable	-	1,158
	<b>1,454</b>	<b>1,158</b>

<b>(c) Devaluation of investment (i)</b>	<b>-</b>	<b>4,510</b>
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(i) The devaluation of assets relates to the property assets held by National Leisure Trust (NLT) as at 30 June 2012.

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 6. Income taxes

### Income tax recognised in profit or loss

#### (a) Tax expense

The prima facie income tax expense on pre-tax accounting profit from operations reconciles to the income tax expense in the financial statements as follows:

	2012 \$'000	2011 \$'000
<b>Profit before tax</b>	3,702	1,347
Less net revenue relating to Benefit Funds included in profit before tax	398	(3,689)
(Loss)/Profit before tax attributable to shareholders	<b>4,100</b>	<b>(2,342)</b>
Income tax expense/(benefit) calculated at 30%	1,231	(702)
Non-allowable expenses	766	880
Adjustments in relation to prior years	136	371
Income tax expense relating to Benefit Funds	(398)	3,689
	<b>1,735</b>	<b>4,238</b>
<b>Current tax expense in respect of the current year</b>	3,157	3,363
Adjustments in relation to prior years	(406)	(2,264)
	<b>2,751</b>	<b>1,099</b>
Deferred tax expense relating to the origination and reversal of temporary differences	(618)	(550)
Income tax expense relating to Benefit Funds	(398)	3,689
<b>Total tax expense</b>	<b>1,735</b>	<b>4,238</b>
Attributable to:		
Income tax expense relating to shareholders	2,133	549
Income tax expense relating to Benefit Funds	(398)	3,689
	<b>1,735</b>	<b>4,238</b>

As a result of tax consolidation, CCL recognises current tax related receivables and corresponding payables from its subsidiaries and the Benefit Funds.

#### (b) Deferred tax in equity and other comprehensive income

	2012 \$'000	2011 \$'000
<b>Arising on income and expenses taken directly to equity:</b>		
- Share issue	-	(34)
<b>Total income tax (credit)/expense recognised directly in equity</b>	<b>-</b>	<b>(34)</b>
<b>Arising on income and expenses recognised in other comprehensive income:</b>		
- Revaluations of financial instruments treated as cash flow hedges	(207)	(671)
<b>Total income tax recognised in other comprehensive income</b>	<b>(207)</b>	<b>(671)</b>

## 6. Income taxes (continued)

### (c) Current tax assets and liabilities

	2012 \$'000	2011 \$'000
<b>Current tax liabilities</b>		
Income tax payable attributable to:		
Shareholders	(6,277)	(5,663)
Entities in the tax-consolidated group	-	-
<b>Income tax (payable)</b>	<b>(6,277)</b>	<b>(5,663)</b>

CCL is the head company of its income tax consolidation group. This income tax consolidation group includes Centuria Life Limited and its associated Benefit Funds.

### (d) Deferred tax balances

Deferred tax assets/(liabilities) arise from the following:

Consolidated					
2012	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Charged to Other Comprehensive Income	Closing Balance \$'000
<b>Temporary differences</b>					
<b>Deferred tax asset</b>					
Deferred loss on financial assets	4,718	(948)	-	30	3,800
Investment properties	1,527	(349)	-	-	1,178
Provisions	724	586	-	-	1,310
Financial derivatives	4,180	3,006	-	(295)	6,891
Capital loss	579	1,585	-	-	2,164
Cash-out guarantee	-	300	-	-	300
Other	23	2	-	-	25
<b>Deferred tax (liability)</b>					
Deferred gain on financial assets	(16)	-	-	-	(16)
Prepayments	(394)	(278)	-	-	(672)
Fair value movements in mortgage assets	(1,846)	(3,286)	-	58	(5,074)
	<b>9,495</b>	<b>618</b>	<b>-</b>	<b>(207)</b>	<b>9,906</b>
Presented in the statement of financial position as follows:					
Deferred tax asset					15,668
Deferred tax (liability)					(5,762)
					<b>9,906</b>

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## (d) Deferred tax balances (continued)

2011	Consolidated				
	Opening Balance \$'000	Charged to Income \$'000	Charged to Equity \$'000	Charged to Other Comprehensive Income	Closing Balance \$'000
<b>Temporary differences</b>					
<b>Deferred tax asset</b>					
Deferred loss on financial assets	3,597	1,482	-	(361)	4,718
Investment properties	558	969	-	-	1,527
Provisions	1,125	(367)	(34)	-	724
Cash out guarantees	2,181	(2,181)	-	-	-
Financial derivatives	4,755	(400)	-	(175)	4,180
Capital loss	824	(245)	-	-	579
Other	22	-	-	-	22
<b>Deferred tax (liability)</b>					
Deferred gain on financial assets	(16)	-	-	-	(16)
Prepayments	(1,134)	740	-	-	(394)
Fair value movements in mortgage assets	(2,263)	551	-	(134)	(1,846)
	<b>9,649</b>	<b>549</b>	<b>(34)</b>	<b>(670)</b>	<b>9,494</b>
Presented in the statement of financial position as follows:					
Deferred tax asset					11,750
Deferred tax (liability)					(2,256)
					<b>9,494</b>



## 7. Earnings per share

	2012 Cents Per Share	2011 Cents Per Share
Basic earnings per share	2.5	(3.7)
Diluted earnings per share	2.5	(3.7)

### Basic earnings per share

The earnings and weighted average number of ordinary shares used in the calculation of basic earnings per share are as follows:

	2012 \$'000	2011 \$'000
Net profit	1,967	(2,891)
<b>Earnings used in the calculation of basic EPS</b>	<b>1,967</b>	<b>(2,891)</b>

	2012 No. '000	2011 No. '000
Weighted average number of ordinary shares for the purposes of basic earnings per share	79,717	77,637

### Diluted earnings per share

The earnings used in the calculation of diluted earnings per share are as follows:

	2012 \$'000	2011 \$'000
Net Profit	1,967	(2,891)
<b>Earnings used in the calculation of diluted EPS</b>	<b>1,967</b>	<b>(2,891)</b>

	2012 No. '000	2011 No. '000
Weighted average number of ordinary shares used in the calculation of basic EPS	79,717	77,637
Weighted average shares deemed to be issued for no consideration in respect of:		
- Convertible notes	-	10,318
<b>Weighted average number of ordinary shares used in the calculation of diluted EPS</b>	<b>79,717</b>	<b>87,955</b>

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 8. Trade and other receivables

	2012 \$'000	2011 \$'000
Amount owing by related entities (i) (refer note 25)	6,314	4,844
Sundry debtors (ii)	3,227	6,010
Deferred consideration (iii)	1,836	-
	<b>11,377</b>	<b>10,854</b>

Except for the deferred consideration, the Group does not hold any collateral or other credit enhancements over these balances nor does it have a legal right of offset against any amounts owed by the Group to the counterparty.

(i) Amounts owing by related entities are non-current assets.

(ii) Sundry debtors are current assets.

(iii) Deferred consideration relates to the sale of Mortgageport. Centuria has a first ranking registered mortgage over all of the Shares in the Mortgageport business. Deferred consideration is a non-current asset.

## 9. Financial assets

	2012 \$'000	2011 \$'000
<b>Financial assets at fair value through profit and loss</b>		
Standard discounted securities	27	27
Unit trusts	372	2,304
	<b>399</b>	<b>2,331</b>
<b>Loans carried at amortised cost:</b>		
Residential Mortgages - at cost	182,528	189,406
Residential Mortgages - at fair value	19,245	8,486
Commercial Mortgages	310	302
	<b>202,083</b>	<b>198,194</b>

Financial assets are non-current assets.

## 10. Non-current assets held for sale

	2012 \$'000	2011 \$'000
Investment property at fair value less costs to sell	15,000	-

At 30 June 2012, the investment property in note 11 was re-classified to non-current assets held for sale and recorded at fair value less costs to sell. Refer to note 28 for further details.

## 11. Investment property

	2012 \$'000	2011 \$'000
<b>Investment properties held at fair value</b>		
Balance at beginning of financial year	22,500	27,000
Additions	-	-
Devaluation	(7,500)	(4,500)
Transfer to non-current assets held for sale	(15,000)	-
<b>Balance at end of financial year</b>	<b>-</b>	<b>22,500</b>

Refer to Note 16 (iii) for details of the two investment properties.

## 12. Investment in associates

	2012 \$'000	2011 \$'000
Centuria Bulky Goods Fund 1 (i)	-	2,887
Mortgageport (ii)	-	2,836
Centuria Direct Property Trust (iii)	686	1,730
	<b>686</b>	<b>7,453</b>

- (i) As at the 30 June 2012, the Group had a 46% investment in Centuria Bulky Goods Fund 1 (CBGF1), an unlisted property fund which invests in bulky goods (large format retail) centres. During the year CBGF1 wrote down its net assets position to nil, hence Centuria's investment has been reduced to nil. There were no capital commitments or other commitments relating to this associate.
- (ii) As at the 30 June 2011, the Group had a 50% investment in Mortgageport Management Pty Limited, a wholesale residential mortgage origination and management company incorporated in Australia. On 29 February 2012, Centuria sold its investment in Mortgageport at its written down value (excluding the effects of the discounting of the deferred consideration). There were no capital commitments or other commitments relating to this associate.
- (iii) The Group has a combined 44% investment in Centuria Direct Property Trust (DPT), an unlisted property trust. Although the Group holds a 44% investment in DPT, it does not control the voting rights. CCL accounts for its investment in DPT by equity accounting for the consolidated group's 5% interest and fair value account for the Income Accumulation Fund's 16% and Growth Bond Fund's 23% investment.

During the year DPT sold the largest of its two remaining assets in its portfolio, hence the decrease in the investment. There were no capital commitments or other commitments relating to DPT.

The financial year end for DPT is the 30 June 2012.

	2012 \$'000	2011 \$'000
<b>Reconciliation of movement in investments accounted for using the equity method</b>		
Balance at 1 July	7,453	11,886
Share of loss for the year	(2,607)	(840)
	<b>4,846</b>	<b>11,046</b>
Dividends	(1,324)	(935)
Additions - paid in cash	-	71
Sale of Mortgageport	(2,836)	-
Impairments	-	(3,933)
Share of reserves	-	843
Tax component of CBGF1 cash flow hedge movement	-	361
<b>Balance at 30 June</b>	<b>686</b>	<b>7,453</b>

Summarised financial information in respect of the Group's associates is set out over the page:

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 12. Investment in associates (continued)

Summarised financial information in respect of the Group's associates is set out below:

	2012 \$'000	2011 \$'000
<b>Financial Position:</b>		
Total assets	95,347	140,649
Total liabilities	(83,049)	(96,071)
Net assets	12,298	44,578
<b>Group's share of associates' net assets</b>	<b>686</b>	<b>4,787</b>
<b>Financial performance:</b>		
Total revenue	27,622	20,425
Total loss for the year	(8,233)	(3,651)
<b>Group's share of associates' loss</b>	<b>(2,607)</b>	<b>(840)</b>

### Dividends/Distributions received from associates

During the year, the Group received dividends of \$nil (2011: \$150,000) from Mortgageport Management Pty Limited. There was a distribution of \$1,324,000 received in the current year from DPT (2011: \$785,000). There was no distribution received in the current year from CBGF1 (2011: nil).

Investment in associates are non-current assets.

## 13. Plant and equipment

	2012 \$'000	2011 \$'000
<b>Gross carrying amount</b>		
Balance at beginning of financial year	3,811	3,290
Additions	-	521
Disposals	(1,108)	-
<b>Balance at end of financial year</b>	<b>2,703</b>	<b>3,811</b>
<b>Accumulated depreciation</b>		
Balance at beginning of financial year	(2,462)	(2,092)
Disposals	905	-
Depreciation expense	(383)	(370)
<b>Balance at end of financial year</b>	<b>(1,940)</b>	<b>(2,462)</b>
<b>Net book value</b>	<b>763</b>	<b>1,349</b>

Plant and equipment are non-current assets.

## 14. Intangible assets

	2012 \$'000	2011 \$'000
Goodwill	53,025	53,025
Other intangible assets	434	784
	<b>53,459</b>	<b>53,809</b>

### Goodwill

	2012 \$'000	2011 \$'000
Gross amount at beginning of the period	53,025	52,812
Additional amounts recognised during the year	-	213
Carrying amount at end of the period	<b>53,025</b>	<b>53,025</b>

Goodwill is solely attributable to the Property Funds Management business with recoverability determined by a value in use calculation using profit and loss projections covering a five-year period, with a terminal value determined after 5 years.

The key assumptions used in the value in use calculations for the property funds management cash-generating unit are as follows:

<b>Revenue:</b>	Revenues in 2013 are based on 2012 actual revenues and are assumed to increase at a rate of 7.5% (2011: 7.5%) per annum for the years 2013-2017. The directors believe this is a prudent and an achievable growth rate. Budgets of business plans anticipate higher growth.
<b>Expenses:</b>	Expenses are assumed to increase at a rate of 3% (2011: 3%) per annum. Significant investment has already been made to the business infrastructure to accommodate future growth.
<b>Pre-tax discount rate:</b>	Discount rates reflect the interest rate used to calculate the present value of future cash flows. A rate of 12.03% (2011: 12.90%) is applied to cash flow projections. In determining the appropriate discount rate, regard has been given to relevant market data as well as CCL specific inputs.
<b>Terminal growth rate:</b>	Beyond 2017, a growth rate of 3%, in line with the expenses growth assumption, has been applied to determine the terminal value of the asset.

### Sensitivity to changes in assumptions

As at 30 June 2012, the estimated recoverable amount of goodwill relating to the property funds management business exceeded its carrying amount by \$3.7 million (2011: \$2.6 million). The table below shows the key assumptions used in the value in use calculation and the amount by which each key assumption must change in isolation in order for the estimated recoverable amount to be equal to its carrying value:

	Revenue Growth Rate (Average)	Post-Tax Discount Rate	Expenses Growth Rate
Assumptions used in value in use calculation	7.50%	11.76%	3.00%
Change required for recoverable amount to equal carrying value	-0.70%	0.59%	1.10%

Intangible assets are non-current assets.

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 15. Trade and other payables

	2012 \$'000	2011 \$'000
Amount owing to related entities (i)	2,382	1,583
GST payable (ii)	-	215
Sundry creditors (iii)	3,387	3,694
	<b>5,769</b>	<b>5,492</b>

(i) Amounts owing to related entities are non-current liability.

(ii) GST is a current liability, payable or recoverable either on a monthly or quarterly basis.

(iii) Sundry creditors are non-interest bearing current liabilities, payable on commercial terms 7 to 60 days.

## 16. Borrowings

	2012 \$'000	2011 \$'000
NAB working capital facility (i)	13,100	8,100
Residential mortgage bill facilities and notes - secured (ii)	152,289	164,799
Investment property facilities - secured (iii)	15,530	24,000
	<b>180,919</b>	<b>196,899</b>

Terms and conditions relating to the working capital facility and bill facilities above are:

- (i) CCL has a financing facility with the National Australia Bank (NAB) in the amount of \$14.4 million. The facility limit is amortising at a rate of \$800,000 per quarter and matures on 31 March 2013. At the date of signing this report, a facility extension to 31 December 2013 had been approved by the NAB and documentation had been finalised. The amended facility continues to amortise at a rate of \$800,000 per quarter. The NAB working capital facility is a current liability.
- (ii) The CCL Group has \$152.3 million (30 June 2011: \$164.8 million) non-recourse notes on issue to the ANZ Bank secured over the residential mortgages held in Senex Warehouse Trust No.1 maturing on 30 September 2013. The facility limit (\$190 million) is reassessed every 6 months with a view to reducing the facility (and therefore the overall facility cost) in line with the reduction in the residential mortgage book. The residential mortgage bill facility is a non-current liability.
- (iii) The National Leisure Trust (NLT) has a \$23.5 million non-recourse bank bill owing to the NAB which matures on 28 March 2013. This facility is secured by way of a fixed or floating charge over the assets of NLT and its underlying property located at Moonah Links, Fingal, Victoria (Moonah Links) and Pepper Sands Resort Torquay, Victoria (Torquay). The fair value of the investment properties is \$15 million at 30 June 2012 (2011: \$22.5 million). The facility balance has been written down to \$15 million in line with the carrying amount of the investment properties. This facility is non-recourse to the wider Centuria Group and has continued to remain in breach of two loan covenants since reported on 30 June 2009. NAB has noted this position whilst reserving its rights. The investment property facility is a current liability.

	2012 \$'000	2011 \$'000
<b>(i) NAB working capital facility:</b>		
Amount used	13,100	8,100
Amount unused	1,300	2,300
	<b>14,400</b>	<b>10,400</b>

## 16. Borrowings (continued)

	2012 \$'000	2011 \$'000
<b>(ii) ANZ non-recourse notes:</b>		
Amount used	152,289	164,799
Amount unused	37,711	60,201
	<b>190,000</b>	<b>225,000</b>
<b>(iii) NAB bank bill:</b>		
Amount used	15,000	24,000
Amount unused	-	-
	<b>15,000</b>	<b>24,000</b>

## 17. Provisions

	2012 \$'000	2011 \$'000
Provision for long service leave (i)	451	325
Provision for annual leave (ii)	595	380
	<b>1,046</b>	<b>705</b>

(i) Provision for long service leave is a non-current liability.

(ii) Provision for annual leave is a current liability.

## 18. Other liabilities

	2012 \$'000	2011 \$'000
Rent incentives received	180	281
Accruals	547	689
Convertible notes (i)	-	5,684
	<b>727</b>	<b>6,654</b>

(i) Convertible notes

On 29 February 2012, the note holders elected to redeem their notes for cash. Interest was paid on the notes at a rate of 7.82%, quarterly in arrears.

The rental incentives are non-current liabilities. The accruals are current liabilities.

## 19. Derivative financial liabilities

	2012 \$'000	2011 \$'000
Interest rate swaps at fair value	25,758	13,531

Refer note 27 for details on exposure to interest rates and credit risk.



# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 20. Policyholders' funds

### (i) Movement in policyholder's funds

	2012 \$'000	2011 \$'000
<b>Bonus Rated Benefit Funds (with Discretionary Participation Features)</b>		
Opening balance	418,675	454,811
Movement in seed capital	-	(3,633)
Applications received	9,851	6,715
Redemptions paid	(46,877)	(49,095)
Current period income	6,492	9,877
<b>Closing balance</b>	<b>388,141</b>	<b>418,675</b>
<b>Unitised Benefit Funds (non Discretionary Participation Features)</b>		
Opening balance	88,350	93,229
Applications received	1,981	2,037
Redemptions paid	(12,882)	(11,588)
Current period (loss)/income	(620)	4,672
<b>Closing balance</b>	<b>76,829</b>	<b>88,350</b>
<b>Total policyholders' funds</b>	<b>464,970</b>	<b>507,025</b>

Under Australian Accounting Standards, the income, expenses, assets and liabilities of the Benefit Funds are included in the Group's statement of comprehensive income, statement of financial position and statement of cash flows. The shareholders of the Group have no rights over the assets and liabilities held in the Benefit Funds. The composition and balances of the assets and liabilities held by the Benefit Funds are as follows:

### (ii) Assets and Liabilities

	2012 \$'000	2011 \$'000
<b>Assets relating to Benefit Fund policyholders are as follows:</b>		
Cash	36,992	19,075
Trade and other receivables	1,227	867
Financial assets at fair value	419,595	480,176
Income tax receivable	434	5,501
Deferred tax assets	7,032	3,831
	<b>465,280</b>	<b>509,450</b>
<b>Liabilities relating to Benefit Fund policyholders are as follows:</b>		
Trade and other payables	51	561
Policyholders' funds (i)	464,970	507,025
Deferred tax liabilities	259	1,864
<b>Total liabilities</b>	<b>465,280</b>	<b>509,450</b>

(i) Included within policyholders' funds at 30 June 2012 is \$12.1 million (2011: \$21.2 million) of reserves.

## 20. Policyholders' funds (continued)

### (iii) Commercial mortgage loans

The ageing of the commercial mortgage loans in the Benefit Funds (i.e. not on the CCL balance sheet) is as follows:

	2012 \$'000	2011 \$'000
<b>Ageing of past due</b>		
1 - 60 days	-	16,758
60 - 120 days	-	-
120 + days	24,923	23,208
<b>Total</b>	<b>24,923</b>	<b>39,966</b>

The directors believe that all mortgage loan balances are carried at fair value.

### (iv) Guarantees to Benefit Fund policyholders

Centuria Life Limited (CLL) provides a guarantee to policyholders of two of its Benefit Funds, Centuria Guaranteed Bond Fund and Centuria Income Accumulation Fund as follows: "If, when CLL, in light of the Bonds, is required under the Bond rules to pay Policy Benefits to a Policy Owner as a consequence of the termination of the Bond or the Maturity or Surrender of a Policy, and CLL determines that the sums to be paid to the Policy Owner from the Bonds shall be less than the amounts standing to the credit of the relevant Accumulation Account Balance, (or in the case of a partial surrender, the relevant proportion of the Accumulation Account Balance), CLL guarantees to take all action within its control, including making payment from its Management Fund to the Policy Owner to ensure that the total sums received by the Policy Owner as a consequence of the termination, Maturity or Surrender equal the relevant Accumulation Account Balance, (or) in the case of a partial surrender, the relevant proportion thereof."

No provision has been raised in respect of these guarantees at this time for the following reasons:

- The funds follow an investment strategy that is appropriate for the liabilities of the fund. The Fund cannot alter their investment strategy without the approval of the members and APRA, following a report from the Appointed Actuary;
- The funds must meet the Capital Adequacy standards of APRA which results in additional reserves being held within the funds to enable the funds to withstand a "shock" in the market value of assets. If the Funds can withstand a shock in asset values and still meet their liabilities from their own reserves, then this further reduces the likelihood of the Funds calling on the guarantee provided;
- The guarantee of benefits requires CCL to inject funds where reserves are insufficient; and
- CLL must also meet ongoing capital requirements set by APRA and there are sufficient surplus assets in the Management Fund to provide capital support if needed.

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 21. Issued capital and retained earnings

	2012		2011	
	No. of Shares	\$'000	No. of Shares	\$'000
<b>(a) Shares on issue</b>				
Balance at beginning of financial year	79,716,736	100,235	76,994,248	100,018
Issued during the year:				
Dividend Reinvestment Plan	2,124,382	1,044	1,674,273	1,030
Transfer to retained earnings (i)	-	(11,480)	-	-
Employee share scheme	-	477	685,308	558
Convertible notes (partial redemption)	-	-	611,831	359
Share buy-back/Shares cancelled	-	-	(248,924)	(1,730)
<b>Balance at end of financial year</b>	<b>81,841,118</b>	<b>90,276</b>	<b>79,716,736</b>	<b>100,235</b>

- (i) As a result of changes to the Corporations Act 2001, on 30 September 2011, Centuria resolved to transfer \$11.476m from issued capital to retained earnings to clear the Group's accumulated losses balance.

Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Unless otherwise stated, ordinary shares have the right to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

	2012 \$'000	2011 \$'000
<b>(b) Reserves</b>		
<b>Reserves comprise:</b>		
Cash flow hedge reserve	(667)	(1,345)
Share-based incentive reserve	-	477
	<b>(667)</b>	<b>(868)</b>

<b>(c) Cash flow hedge reserve</b>		
Balance at beginning of financial year	(1,345)	(2,067)
Gain recognised on cash flow hedges:		
- Interest rate swaps	885	1,032
Income tax related to gains recognised in other comprehensive income	(207)	(310)
<b>Balance at end of financial year</b>	<b>(667)</b>	<b>(1,345)</b>

The cash flow hedge reserve represents the cumulative portion of gains and losses on hedging instruments deemed effective as cash flow hedges.

<b>(d) Share of associates' reserves</b>		
Balance at beginning of financial year	-	(843)
Movement in reserve	-	843
<b>Balance at end of financial year</b>	<b>-</b>	<b>-</b>

## 21. Issued capital and retained earnings (continued)

	2012 \$'000	2011 \$'000
<b>(e) Share-based incentive reserve</b>		
Balance at beginning of financial year	477	738
Executive share option plan	-	(229)
Employee share scheme	(477)	(32)
<b>Balance at end of financial year</b>	<b>-</b>	<b>477</b>

The share-based incentive reserve is used to record the value of share-based payments provided to employees, including the CEO, as part of their remuneration. Refer to note 32 for further details of these plans.

<b>(f) Retained Earnings</b>		
Balance at beginning of financial year	(8,886)	(2,203)
Dividends paid (note 22)	(3,872)	(3,792)
Distributions	78	-
Net profit attributable to shareholders	1,967	(2,891)
Transfer to retained earnings from issued capital	11,480	-
<b>Balance at end of financial year</b>	<b>767</b>	<b>(8,886)</b>

## 22. Dividends

	2012		2011	
	Cents Per Share	\$'000	Cents Per Share	\$'000
<b>Recognised amounts</b>				
Fully paid ordinary shares				
Interim dividend: (i)				
Fully franked to 100%	1.25	(1,123)	2.5	(1,885)
Final dividend: (ii)				
Franked to 30%	3.50	(2,749)	2.5	(1,907)
	<b>4.75</b>	<b>(3,872)</b>	<b>5.0</b>	<b>(3,792)</b>

(i) CCL declared an interim dividend of 1.25 cents fully franked to 100% with a record date of 9 March 2012 which was paid on 30 March 2012.

(ii) The 2011 financial year final dividend was paid in September 2011.

	2012 \$'000	2011 \$'000
<b>Franking credits available for subsequent financial years at 30% (2011: 30%) are:</b>		
- Balance as at 1 July	371	911
- Increase / (decrease) in franking credits during the financial year	699	(540)
<b>Franking account balance at end of financial year</b>	<b>1,070</b>	<b>371</b>

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 23. Commitments and contingencies

### Operating leases

#### Operating lease commitments – as lessee

The Group has entered into 2 commercial leases for its office premises. The leases have an average life of between 2 years and 2.5 years with renewal options included in the contracts.

Future minimum rentals payable under operating leases are as follows:

	2012 \$'000	2011 \$'000
Not longer than 1 year	493	830
Longer than 1 year and not longer than 5 years	343	1,404
	<b>836</b>	<b>2,234</b>

#### Operating lease commitments – as lessor

Operating leases relate to investment properties owned with remaining lease terms of between 0.5 and 4 years (30 June 2011: 0.5 and 5 years).

#### Non-cancellable operating lease receivables

Not longer than 1 year	4,211	4,088
Longer than 1 year and not longer than 5 years	11,144	15,355
Longer than 5 years	-	-
	<b>15,355</b>	<b>19,443</b>

## 24. Remuneration of auditors

	2012 \$'000	2011 \$'000
<b>KPMG</b>		
Audit and review of the financial report	300	286
Other assurance services	14	26
Taxation services	103	317
	<b>417</b>	<b>629</b>

## 25. Related party transactions

### (a) Equity interests in related parties

Details of the percentage of ordinary shares held in subsidiaries are disclosed below:

Name of Subsidiary	Country of Incorporation	Ownership Interest	
		2012 %	2011 %
Centuria Capital Limited	Australia	100%	100%
Over Fifty Capital Pty Ltd	Australia	100%	100%
Centuria Life Limited	Australia	100%	100%
Over Fifty Seniors Equity Release Pty Ltd	Australia	100%	100%
Over Fifty Insurance Pty Ltd	Australia	100%	100%
Over Fifty Investments Pty Ltd	Australia	100%	100%
OFM Direct Property Trust No. 2 "Dominion"	Australia	100%	100%
Over Fifty Funds Management Pty Ltd	Australia	100%	100%
OFM Direct Property Trust No. 3 Chisholm	Australia	100%	100%
National Leisure Trust	Australia	100%	100%
OFM Bluegums Leisure Trust	Australia	100%	100%
OFG LTP Pty Ltd (formerly Lifetime Planning Pty Ltd)	Australia	100%	100%
Senex Warehouse Trust No. 1	Australia	100%	100%
Centuria Property Funds Limited	Australia	100%	100%
Over Fifty Financial Planning Pty Ltd	Australia	100%	100%
Centuria Strategic Property Limited	Australia	100%	100%

Details of interests in associates are disclosed in note 12 to the financial statements.

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 25. Related party transactions (continued)

### (b) Transactions with key management personnel

#### (i) Key management personnel compensation

Details of key management personnel compensation are disclosed in note 31 to the financial statements.

#### (ii) Key management personnel equity holdings

##### Fully paid ordinary shares of CCL

	Balance at 1 July 2011 No.	Shares Purchased / Issued as part of Remuneration No.	Shares Sold No.	Balance at 30 June 2012 No.
<b>2012</b>				
R.W. Dobson	655,390	58,249	-	713,639
J.E. McBain	4,363,126	109,233	-	4,472,359
J.C. Huljich	2,189,116	-	-	2,189,116
P.J. Done	303,812	20,449	-	324,261
D.K. Gupta	109,735	10,073	-	119,808
M.J. Coy	559,024	-	-	559,024
T.D. Reid	61,228	-	(9,686)	51,542
D.B. Govey	603,530	22,131	-	625,661
<b>2011</b>				
R.W. Dobson	373,554	281,836	-	655,390
J.E. McBain	4,323,126	40,000	-	4,363,126
J.C. Huljich	2,189,540	-	(424)	2,189,116
P.J. Done	281,177	22,635	-	303,812
D.K. Gupta	98,437	11,298	-	109,735
M.J. Coy	349,117	209,907	-	559,024
T.D. Reid	3,569	57,659	-	61,228
D.B. Govey	430,636	172,894	-	603,530

All equity transactions with directors and executives other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the entity would have adopted if dealing at arm's length.

#### (iii) Other transactions with key management personnel of the Group

As a matter of Board policy, all transactions with directors and director-related entities are conducted on normal commercial or employment terms.

During the financial year, the following transactions occurred between the Company and key management personnel:

- Henry Davis York, a related party of R. Dobson, was paid \$65,473 (2011: \$319,018) for legal consultancy fees.



## 25. Related party transactions (continued)

### (c) Transactions with other related parties

	2012 \$'000	2011 \$'000
<b>Aggregate amounts received from related parties:</b>		
<b>Management fees:</b>		
Over Fifty Guardian Friendly Society Limited	2,861	2,083
Centuria Life Limited Benefit Funds	12,091	13,058
Property Trusts managed by Centuria	11,758	11,816
	<b>26,710</b>	<b>26,957</b>

Where a management agreement is in place, management fees are charged to controlled entities in accordance with such agreements.

### Terms and conditions of transactions with related parties

Investments in benefit funds held by certain directors are made on the same terms and conditions as all other persons. Directors and director-related entities received the same returns on these investments as other policyholders.

The parent entity and its related entities entered into transactions, which are insignificant in amount, with directors and their director-related entities in their domestic dealings and are made in arm's length transactions at normal market prices and on normal commercial terms. These are:

- receipt of general insurance premiums; and
- payment of general insurance benefits.

CCL pays some expenses on behalf of related entities and receives a reimbursement for these payments. There are no loans on non-market terms between the Centuria Capital Group and the Benefit Funds.

### Transactions between CCL and its related parties

During the financial year, the following transactions occurred between the Company and its other related parties:

- CCL received dividends of \$6,118,785 (2011: \$935,000) from its associates.
- During the prior year CCL has advanced \$2.3 million to Centuria Diversified Property Fund as a loan earning 10% p.a. The loan is a convertible note which had a 25 February 2013 maturity date. The loan provides CCL the right to convert into Centuria Diversified Property Fund units at the market price at maturity or demand repayment of all principal plus accrued interest.
- CCL has a receivable from related parties of \$6.3m consisting of \$2.3m of loans in connection with Centuria property funds earning 10% p.a., a \$2.7m receivable from Centuria Diversified Property Fund earning 10% p.a., a \$1.2m from CBGF1 which has been fully provisioned, a \$0.1m from Over Fifty Guardian Friendly Society Limited.

## 26. Notes to the statement of cash flows

### (a) Reconciliation of cash and cash equivalents

For the purposes of the statement of cash flows, cash and cash equivalents includes cash on hand and in banks. Cash and cash equivalents at the end of the financial year as shown in the statement of cash flows are reconciled to the related items in the statement of financial position as follows:

	Note	2012 \$'000	2011 \$'000
Attributable to shareholders		15,409	11,625
Attributable to Benefit Fund policyholders	20	36,992	19,075
<b>Total</b>		<b>52,401</b>	<b>30,700</b>

Under AASB 107 Statement of Cash Flows, the income, expenses, assets and liabilities of the Benefit Funds are included in the Group's statement of comprehensive income and statement of financial position and statement of cash flows. As a result, the Benefit Funds' cash is included in the Group's statements with a corresponding amount included in liabilities. The shareholders of the Group have no rights over the cash held in the Benefit Funds. The composition of the closing cash balance is as follows:

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 26. Notes to the statement of cash flows (continued)

### (b) Reconciliation of profit for the period to net cash flows from operating activities

	Note	2012 \$'000	2011 \$'000
Profit/(loss) for the year		1,967	(2,891)
Depreciation and amortisation		733	636
Movement in provision for doubtful debts		2,708	2,396
Provision for CBGF1 settlement		1,000	-
Bad debts written off		1,454	1,158
Net gain on revaluation of NLT liabilities		406	-
Decrease/(increase) in Executive share-based incentives		-	219
Unrealised income/(loss)		(4,647)	5,154
(Profit)/loss on sale of property		1,029	1,562
Unrealised profit on property		374	-
Share of loss in associate		2,486	840
Fair value gain/(loss) on derivatives		981	1,173
Amortisation of borrowing costs		369	126
Increase in deferred income tax assets		412	2,469
Increase in tax provision		614	975
<b>Changes in net assets and liabilities:</b>			
Decrease/(increase) in assets:			
Sundry receivables		2,783	2,198
Prepayments		26	299
(Decrease)/increase in liabilities:			
Sundry payables		(307)	213
Provisions		341	(6)
Decrease in policyholder liability	20	(44,170)	(39,296)
<b>Net cash flows used in operating activities</b>		<b>(31,441)</b>	<b>(22,775)</b>

## 27. Financial instruments

The CCL consolidated results comprise the assets and liabilities of both the CCL group and the Benefit Funds. The shareholders of CCL are subject only to the risks and rewards of assets and liabilities in CCL and not those of the assets and liabilities held in the Benefit Funds which are required to be aggregated in the financial report as prescribed by AASB 1038 Life Insurance Contracts. Therefore this note only addresses the financial assets and financial liabilities held directly on CCL's statement of financial position and not those assets and liabilities held by the benefit funds (as detailed in Note 20).

The only risk to the shareholders of CCL in respect to the Benefit Funds is limited to capital reserving. Centuria Life Limited (CLL), being a subsidiary of CCL acts in the capacity of manager for two capital guaranteed benefit funds. To mitigate the risk of these guarantees being called upon, the Benefit Funds set aside prescribed reserving which is determined upon a "1 in 400 year event" stress testing scenario. The reserving calculations are verified by an independent actuary appointed by CLL. The Benefit Funds at 30 June 2012 have set aside the requisite reserving as determined by the investment profile of the two respective funds. If the required reserving under the "Capital Adequacy Test" needs increasing, in addition to the Benefit Funds assets, CLL would be required to inject additional seed capital. Seed capital is later repaid to CLL when reserving is returned to a normal sustainable level.

### (a) Management of financial instruments

The Board is ultimately responsible for the Risk Management Framework of the Group.

The Group employs a cascading approach to managing risk, facilitated through delegation to specialist committees and individuals within the Group.

The Investment & Lending Committee's function is to manage and oversee the Group's investments in accordance with the investment objectives and framework as set down by the Board. Specifically, it has responsibility for setting and reviewing strategic asset allocations, reviewing investment performance, reviewing investment policy, monitoring and reporting on the performance of the investment risk management policy and performing risk management procedures in respect of the investments.

The Group is exposed to a variety of financial risks as a result of its activities. These risks include market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Group's risk management and investment policies, approved by the Board, seek to minimise the potential adverse effects of these risks on the Group's financial performance. These policies may include the use of certain financial derivative instruments.

The Group outsources the investment management of the Benefit Funds to specialist investment managers, who provide services to the Group, co-ordinate access to domestic and international financial markets, and manage the financial risks relating to the operations of the Group in accordance with an investment mandate set out in the Group's constitution and the Benefit Funds' product disclosure statements. The Benefit Funds' investment mandates are to invest in equities and fixed interest securities via unit trusts, discount securities and may also invest in derivative instruments such as futures and options.

The Group uses interest rate swaps to manage interest rate risk and is not done for speculative purposes in any situation.

Hedging is put in place where the group is either seeking to minimize or eliminate cash-flow variability, i.e., converting variable rates to fixed rates, or changes in the fair values of underlying assets or liabilities, i.e., to convert fixed rates to variable rates.

Derivative financial instruments of the Benefit Funds, consolidated into the financial statements of the Group under AASB's, are used only for hedging of actual or anticipated exposures relating to investments.

All financial arrangements are backed up by cash or assets (as appropriate) with a fair value at least equal to the notional value of the asset which underlies the financial instrument. The Group does not enter into or trade financial instruments for speculative purposes. The use of financial derivatives in respect of Benefit Funds is governed by the Fund's investment policies, which provide written principles on the use of financial derivatives.

### (b) Significant accounting policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenue and expenses are recognised, in respect of each class of financial asset and financial liability are disclosed in note 2 to the financial statements.

### (c) Capital risk management

The Group manages its capital to ensure that entities in the Group will be able to continue as going concerns while maximising the return to stakeholders through the optimisation of debt and equity balance. This overall strategy remains unchanged from 2011.

The Group's capital structure consists of net debt (borrowings as detailed in note 16 and offset by cash and cash equivalents) and equity of the Group (comprising issued capital, reserves and retained earnings which are all detailed in note 21).

The Group carries on business throughout Australia, primarily through subsidiary companies that are established in the markets in which the Group operates. The operations of the Friendly Society are regulated by APRA and the Management Fund of the Society has a minimum Management Capital Requirement (MCR) that must be maintained at all times. It is calculated monthly and projected forward for the next six months and these results are reported to the Board each month. The current level of share capital of the Friendly Society means that for the foreseeable future the MCR will continue to be met with a substantial excess.

In addition, Centuria Property Funds Limited and Centuria Strategic Property Limited have AFSL licences so as to operate registered property trusts. Regulations require these entities to hold a minimum net asset amount which is maintained by way of bank guarantees. Where necessary, the bank guarantees will be increased to ensure the net asset requirement is always met.

Operating cash flows are used to maintain and, where appropriate, expand the Group's funds under management as well as to make the routine outflows of tax, dividends and repayment of maturing debt. The Group reviews regularly its anticipated funding requirements and the most appropriate form of funding (capital raising or borrowings) depending on what the funding will be used for.

## 27. Financial instruments (continued)

### (c) Capital risk management (continued)

The capital structure of the Benefit Funds (and management fund) consists of cash and cash equivalents, bill facilities and mortgage assets. The Benefit Funds also hold a range of financial assets for investment purposes including investments in unit trusts, equity and floating rate notes. The Investment and Lending Committee aims to ensure that there is sufficient capital for possible redemptions by unit holders of the Benefit Funds by maintaining a minimum of 15% of its total investments in cash and cash equivalents.

The Benefit Funds have no restrictions or specific capital requirements on the application and redemption of units. The Benefit Fund's overall investment strategy remains unchanged from the prior year.

### (d) Fair values versus carrying amounts of financial instruments

The fair values of financial assets and liabilities, together with the carrying amounts shown in the statement of financial position are as follows:

	Carrying Amount		Fair Value	
	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Financial assets at fair value through the profit or loss - designated upon initial recognition</b>	399	2,331	399	2,331
<b>Loans and receivables:</b>				
- Residential Mortgage Loans	202,083	198,194	249,917	253,643
- Cash and cash equivalents	15,409	11,625	15,409	11,625
- Trade and other receivables	11,377	10,854	11,377	10,854
<b>Total financial assets</b>	<b>229,268</b>	<b>223,004</b>	<b>277,102</b>	<b>278,453</b>
Derivatives that are designated and effective as hedging instruments carried at fair value	25,758	13,531	25,758	13,531
Financial liabilities measured at amortised cost	187,742	209,045	187,742	209,045
<b>Total Financial liabilities</b>	<b>213,500</b>	<b>222,576</b>	<b>213,500</b>	<b>222,576</b>

Financial assets and liabilities are recognised in accordance with the accounting policies detailed in note 2 to the financial statements.

### (e) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties and obtaining sufficient collateral or other security, where appropriate, as a means of mitigating risk of financial loss from default. The credit risk on financial assets of the Group and the parent recognised in the statement of financial position is generally the carrying amount, net of allowance for impairment loss.

Concentration of risk may exist when the volume of transactions limits the number of counterparties.

#### Credit risk of residential mortgages

Concentration of credit risk in relation to residential mortgage loans is minimal, as each individual residential mortgage loan is secured by an individual residential property. The loan is required to be paid off from the proceeds of disposal of the secured property after the borrower's death.

Individual property valuations are conducted on a yearly basis in accordance with financier's requirements. At 30 June 2012, the highest loan to value ratio (LVR) of a loan in the residential mortgage loan book is 77%, and there are only 24 out of 1,979 residential mortgage loans where the LVR is higher than 50%.

There are no residential mortgage loans that are past due and not impaired.

#### Credit risk of commercial mortgages

Credit risk on mortgage loans is managed through prudential lending guidelines, appropriate mortgage security arrangements and loan default credit risk insurance, and are reviewed and approved by the risk management committee annually.

## 27. Financial instruments (continued)

### (e) Credit risk (continued)

#### Credit risk on other financial assets

Credit risk on other financial assets such as investments in floating rate notes, standard discount securities and unit trusts is managed through strategic asset allocations with creditworthy counterparties and the ongoing monitoring of the credit quality of investments, including the use of credit ratings issued by well-known rating agencies. The exposure of credit risk in respect of financial assets is minimal.

The Group does not have any significant credit risk exposure to any single entity or any group of counterparties having similar characteristics. No individual investment exceeds 5% of net assets at either 30 June 2012 or 30 June 2011.

#### (f) Liquidity risk

The Group's approach to managing liquidity is to ensure that it will always have sufficient liquidity to meet its liabilities.

The liquidity risk is managed for the Group at a corporate level. Bank account balances across all entities, current and future commitments, and expected cash inflows are reviewed in detail when the monthly cash flow projection is prepared for management purposes and presented to the Board at its regular monthly meetings. By comparing the projected cash flows with the assets and liabilities shown in the individual and consolidated statements of financial position, which are also prepared on a monthly basis for management purposes and presented to the Board, liquidity requirements for the Group can be determined. Based on this review, if it is considered that the expected cash inflows plus liquidity on hand, may not be sufficient in the near term to meet cash outflow requirements, including repayment of borrowings, a decision can be made to carry out one or more of the following:

- renegotiate the repayment terms of the borrowings;

- sell assets that are held on the statement of financial position; and/or
- undertake an equity raising.

This, combined with a profitable business going forward, should ensure that the Group continues to meet its commitments, including repayments of borrowings, as and when required.

The Group's overall strategy to liquidity risk management remains unchanged from 2011.

The following tables summarise the Group's remaining contractual maturity for its non-derivative financial liabilities with agreed repayment periods. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group and the parent can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are at floating rate, the undiscounted amount is derived from interest rate curves at the end of the reporting period.

The unit holders in the Benefit Funds are able to withdraw their units at any time and the Benefit Funds are therefore exposed to the liquidity risk of meeting unit holders' withdrawals at any time. The CLL Risk Management Statement has a requirement to maintain the Benefit Funds' cash holdings and liquid assets at a minimum of 15% of total assets.

The Benefit Funds' listed securities, listed managed investment schemes and unlisted management investment schemes are considered to be readily realisable. The Benefit Funds' other investments include investments in unlisted investments and first mortgage loans, which are not traded in an organised market and which generally may be illiquid. As a result, there is a risk that the Benefit Funds may not be able to liquidate all of these investments at their fair value in order to meet their liquidity requirements. The Benefit Funds' liquidity risks are managed in accordance with the funds' investment strategies.

	On Demand \$'000	Less than 3 Months \$'000	3 Months to 1 Year \$'000	1-5 Years \$'000	5+ Years \$'000	Total \$'000
<b>Non-derivative financial liabilities Consolidated</b>						
<b>2012</b>						
Borrowings	15,530 (i)	6,622	20,611	148,659	-	191,422
Other payables	-	4,763	1,000	-	-	5,763
<b>Total</b>	<b>15,530</b>	<b>11,385</b>	<b>21,611</b>	<b>148,659</b>	<b>-</b>	<b>197,185</b>
<b>2011</b>						
Borrowings	24,000	175,801	-	-	-	199,801
Convertible notes	-	-	5,980	-	-	5,980
Other payables	-	5,241	-	-	-	5,241
<b>Total</b>	<b>24,000</b>	<b>181,042</b>	<b>5,980</b>	<b>-</b>	<b>-</b>	<b>211,022</b>

(i) Relates to the non-recourse National Leisure Trust bank bill owing to the NAB.

The following table summarises the maturing profile of derivative financial liabilities. The table has been drawn up based on the undiscounted net cash flows on the derivative instruments that settle on a net basis.

## 27. Financial instruments (continued)

### (f) Liquidity risk (continued)

	On Demand \$'000	Less Than 3 Months \$'000	3 Months to 1 Year \$'000	1-5 Years \$'000	5+ Years \$'000	Total \$'000
<b>Derivative financial liabilities consolidated</b>						
<b>2012</b>						
Interest rate swaps	-	2	13	1,469	57,149	58,633
<b>Total</b>	<b>-</b>	<b>2</b>	<b>13</b>	<b>1,469</b>	<b>57,149</b>	<b>58,633</b>
<b>2011</b>						
Interest rate swaps	-	147	1,765	1,770	34,072	37,754
<b>Total</b>	<b>-</b>	<b>147</b>	<b>1,765</b>	<b>1,770</b>	<b>34,072</b>	<b>37,754</b>

### (g) Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises interest rate risk and price risk. Due to the nature of assets held by the Group (excluding the Benefit Funds), there is an asset and liability management process which determines the interest rate sensitivity of the statement of financial position and the implementation of risk management practices to hedge the potential effects of interest rate changes. The Group manages the market risk associated with its Benefit Funds via outsourcing its investment management and the Investment Manager manages the financial risks relating to the operations of the Benefit Funds in accordance with an investment mandate set out in the Benefit Funds constitution and product disclosure statement. There has been no change to the Group's exposure to market risks or the manner in which it manages and measures the risk.

#### Interest rate risk management

The Group is exposed to interest rate risk because entities in the Group borrow funds at floating interest rates and lend funds at both fixed and floating interest rates. The risk is managed by the Group by the use of interest rate swap contracts. Hedging activities are evaluated regularly to align with interest rate views and defined risk appetite; ensuring optimal hedging strategies are applied.

The Benefit Funds' activities expose it to the financial risk of changes in interest rates. Floating rate instruments expose the funds to cash flow risk, whereas fixed interest rate instruments expose the fund to fair value interest rate risk. Ultimately unit holders of the Benefit Funds are exposed to this risk.

The following tables detail the Group's interest bearing financial assets and liabilities.



## 27. Financial instruments (continued)

### (g) Market risk (continued)

Consolidated				
2012	Weighted Average Effective Interest Rate %	Variable Rate \$'000	Fixed Rate \$'000	Total \$'000
<b>Financial Assets</b>				
Cash and cash equivalents	4.75%	5,420	9,989	15,409
Mortgage loans	8.31%	148,327	52,416	200,743
<b>Total financial assets</b>		<b>153,747</b>	<b>62,405</b>	<b>216,152</b>
<b>Financial liabilities</b>				
Borrowings	5.71%	(180,389)	-	(180,389)
<b>Total financial liabilities</b>		<b>(180,389)</b>	<b>-</b>	<b>(180,389)</b>
Notional derivatives		32,430	(32,430)	-
<b>Net interest bearing financial (liabilities)/assets</b>		<b>5,788</b>	<b>29,975</b>	<b>35,763</b>

Consolidated				
2011	Weighted Average Effective Interest Rate %	Variable Rate \$'000	Fixed Rate \$'000	Total \$'000
<b>Financial Assets</b>				
Cash and cash equivalents	4.78%	4,178	7,448	11,626
Mortgage loans	8.35%	155,190	43,004	198,194
<b>Total financial assets</b>		<b>159,368</b>	<b>50,452</b>	<b>209,820</b>
<b>Financial liabilities</b>				
Borrowings	5.65%	(196,899)	-	(196,899)
<b>Total financial liabilities</b>		<b>(196,899)</b>	<b>-</b>	<b>(196,899)</b>
Notional derivatives		56,737	(56,737)	-
<b>Net interest bearing financial (liabilities)/assets</b>		<b>19,206</b>	<b>(6,285)</b>	<b>12,921</b>

## 27. Financial instruments (continued)

### (g) Market risk (continued)

#### Interest rate swap contracts

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of fixed rate financial assets held and the cash flow exposures on the issued variable rate debt.

The following table details the notional principal amounts and remaining expiry of the Group's outstanding interest rate swap contracts as at reporting date. These swaps are at fair value through profit and loss except for those designated and effective as cash flow hedges in which case the fair value movements will be recorded in equity.

	Average Contracted Rate		Notional Principal Amount		Fair value	
	2012 %	2011 %	2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
<b>Consolidated</b>						
<b>Pay fixed for floating contracts designated as effective in fair value hedge</b>						
50 years swaps contracts (i)	7.47%	7.49%	16,538	17,653	(23,981)	(10,410)
			<b>16,538</b>	<b>17,653</b>	<b>(23,981)</b>	<b>(10,410)</b>
<b>Pay fixed for floating contracts designated as effective in cash flow hedges</b>						
Less than 1 year	7.47%	8.40%	-	7,192	-	(1,109)
1 - 2 years	3.94%	7.47%	8,000	24,000	(99)	(983)
2 - 8 years	6.88%	6.88%	7,892	7,892	(1,678)	(1,029)
			<b>15,892</b>	<b>39,084</b>	<b>(1,777)</b>	<b>(3,121)</b>
			<b>32,430</b>	<b>56,737</b>	<b>(25,758)</b>	<b>(13,531)</b>

(i) Refer to Note 27 (h) regarding the fair value of 50-year swap contracts.

The objective of interest rate swap contracts, excluding the 50 year swap, in a hedge relationship is to match the cash flows obtained from the fixed rate book to the floating funding obligations under the warehouse trust facility. This strategy is in accordance with the CCL Treasury Policy. The hedged item (being floating funding obligation) is expected to impact profit or loss over the next five years (2011: five years) following year end where the Group has an interest rate exposure from fixed rate residential mortgages from customers at a fixed rate for either the first four or eight years of the loan.

The hedged item cash flows are expected to occur at the end of the fixed rate loan as the floating funding obligations and fixed rate residential loan mortgages are compounding.

## 27. Financial instruments (continued)

### (g) Market risk (continued)

#### Interest rate sensitivity

The sensitivity analyses below have been determined based on the parent and the Group's exposure to interest rates at the reporting date and the stipulated change taking place at the beginning of the financial year and being held constant throughout the reporting period. A 100 basis point (1%) increase or decrease represents management's assessment of the reasonably possible change in interest rates.

The following table illustrates the effect on profit after tax and other equity reserves if interest rates had been 1% higher or lower and all other variables were held constant.

Effect On					
	Change in Variable	Profit After Tax		Other Reserves	
		2012 \$'000	2011 \$'000	2012 \$'000	2011 \$'000
Consolidated					
Interest rate risk	+1%	110	55	244	543
Consolidated					
Interest rate risk	- 1%	(110)	(55)	(176)	(557)

The methods and assumptions used to prepare the sensitivity analysis have not changed in the year. The sensitivity analyses above take into account interest-earning assets and interest-bearing liabilities attributable to the shareholders only.

#### Other price risk

Other price risk is the risk that the total value of investments will fluctuate as a result of changes in market prices, whether caused by factors specific to an individual investment, its issuer or all factors affecting all instruments traded in the market.

### (h) Fair value of financial instruments

#### Fair value of financial instruments carried at amortised cost

Except as detailed in the following table, the directors consider that the carrying amounts of financial assets and financial liabilities recognised at amortised cost in the financial statements approximate their fair values.

	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	2012 \$'000	2012 \$'000	2011 \$'000	2011 \$'000
<b>Financial assets</b>				
Residential Mortgages - at cost	182,528	230,672	189,406	245,157
Residential Mortgages - at fair value	19,245	19,245	8,486	8,486
Other	709	-	302	-
	<b>202,482</b>	<b>249,917</b>	<b>198,194</b>	<b>253,643</b>

## 27. Financial instruments (continued)

### (h) Fair value of financial instruments (continued)

#### Valuation techniques and assumptions applied for the purpose of measuring fair value

The fair values of financial assets and financial liabilities are determined as follows:

- The fair values of financial assets and financial liabilities with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices (includes listed redeemable notes, bills of exchange, debentures and perpetual notes).
- The fair values of other financial assets and financial liabilities (excluding derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices from observable current market transactions and dealer quotes for similar instruments. Discount rates are determined based on market rates applicable to the financial asset or liability.
- The valuation technique used to determine the fair value of the Group's residential mortgage loan book is as follows:
  - the weighted average residential mortgage holders age is 72 years;
  - the future cash flows calculation is related to borrowers' mortality rates and mortality improvements. The data is sourced from public available information released by the government;
  - fixed or variable interest rates charged to borrowers are used to project future cash flows;
  - a redemption rate, which is based on historical loan redemption experience, applies to future cash flow forecast; and

- year end yield curve plus a credit margin is used to discount future cash flows back to 30 June 2012 to determine the fair value.

- The fair values of derivative instruments are calculated using quoted prices. Where such prices are not available, discounted cash flow analysis is performed using the applicable yield curve for the duration of the instruments for non-optional derivatives, and option pricing models for optional derivatives.
- The valuation technique used to determine the fair value of the Fixed For Life interest rate swaps is as follows:
  - the weighted average residential mortgage holders age is 72 years;
  - the expected future cash flows in relation to the swaps are based on residential mortgage borrowers' expected life expectancy sourced from data released by the government; and
  - the difference between the fixed swap pay rates and forwards rates as of 30 June 2012 is used to calculate the future cash flows in relation to the swaps.

Fair value measurements recognised in the statement of financial position

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

2012				
	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss - designated upon initial recognition	-	399	-	399
<b>Total</b>	-	<b>399</b>	-	<b>399</b>
<b>Financial liabilities</b>				
Derivative liabilities	-	(1,777)	(23,981)	(25,758)
<b>Total</b>	-	<b>(1,777)</b>	<b>(23,981)</b>	<b>(25,758)</b>

There were no transfers between Level 1, 2 and 3 in the period.

## 27. Financial instruments (continued)

Reconciliation of Level 3 fair value measurements of financial liabilities:

	Fair Value Through Profit or Loss	Total
	Fixed For Life Swaps	
Opening balance	(10,410)	(10,410)
Total losses: - in profit or loss	(13,571)	(13,571)
Closing balance	(23,981)	(23,981)

### Significant assumptions used in determining fair value of financial assets and liabilities

#### Fixed For Life swaps (FFL)

The objective of 50-year interest rate swap contracts in a hedge relationship is to hedge the exposure to changes in fair value of recognised assets, being Fixed For Life residential mortgage loans, that is attributable to the interest rate risk that could affect profit or loss. This strategy is in accordance with the CCL Treasury Policy.

The fair value of the 50 year residential mortgage loans and 50 years swaps are calculated using a valuation technique based on assumptions that are not supported by prices from observable current market transactions in the same instrument and not based on available observable market data due to the illiquid nature of the instruments. Use is made of discounted cash flow analysis using the applicable yield curve out to 15 years, with the yield curve at 15 years employed as the best proxy for subsequent rates due to non-observable market data.

Mortality rates up to age 95 for males and females have been assumed to be 95%, with consistent assumptions beyond age 95. Mortality improvements of 3% p.a. are assumed starting at age 70. The improvement factor tapers down to 1% p.a. at age 90 and then zero at age 100. Joint life mortality is calculated based on last death for loans with joint borrowers. 51.47% of residential mortgage loan portfolio consists of joint lives.

Adjusting the yield curve after 15 years by an increase / (decrease) of 100 basis points as at 30 June 2012 would cause the fair value of the 50 year swaps to increase / (decrease) by \$8,139,336/(\$10,167,137). (2011: \$2,036,055/(\$2,293,080)).

Additionally, the valuations have been calculated with an assumption of deaths (as opposed to early voluntary repayment) of mortgagees during the life of the interest rate swaps. However, the swap agreements provide that in the event of death of a mortgagee there is a nil cost prepayment option.

Accordingly, the assumption on the number of deaths and timing of such deaths will impact the valuation. If the assumption of the death rate changes to 10% of mortgagees 10 years after the inception of the swaps, the fair value as at 30 June 2012 would increase by \$1,314,382 (2011: \$272,429).

## 28. Subsequent events

On 2 August 2012, Over Fifty Funds Management Pty Ltd as Trustee for the OFM National Leisure Trust (NLT) entered into a Heads of Agreement with a third party to sell the two properties at Moonah Links, Fingal, Victoria and Pepper Sands Resort,

Torquay, Victoria which are owned by NLT. The purchase price is \$15.1m and the expected settlement date is 31 August 2012. The sale of the properties is conditional on approval by the lender which is expected to occur between the date of signing this report and the date of settlement. The result of this transaction is that the asset has been reclassified to non-current asset held for sale and valued at the purchase price less expected costs to sell. Non-recourse debt in respect of these properties has also been written down to the purchase price plus final interest charges up to the date of settlement.

At the date of signing this report, the extension, to 31 December 2013, of the Group's working capital facility, provided by National Australia Bank, had been approved by the financier.

## 29. Acquisition of business

There were no acquisitions of businesses during the financial year ended 30 June 2012.

## 30. Operating segments

The Group has eight reportable segments, as described below, which are the divisions used to report to the Board for the purpose of resource allocation and assessment of performance. For each of the divisions, the Group's CEO (the chief operating decision maker) reviews internal management reports on a monthly basis. The following summary describes the operations in each of the Group's reportable segments:

- Centuria Life and Benefit Funds - a range of financial products, including single and multi-premium investments.
- Insurances - general, home and contents, motor vehicle and travel insurance agency.
- Commercial Mortgages - provides debt funding secured by mortgages.
- Residential Mortgages - provides debt funding secured by first mortgages over residential property.
- Mortgageport - investment in money manager and mortgage broker (sold during the year).
- Property Investments – investment in National Leisure Trust.
- Property Funds Management - Centuria Property Funds Limited and Centuria Strategic Property Limited.
- Corporate.

Information regarding these segments is presented over the page. The accounting policies of these reportable segments are the same as the Group's accounting policies.

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 30. Operating segments (continued)

The following is an analysis of the Group's revenue and results by reportable operating segment for the current year under review:

Year Ended 30 June 2012	Centuria Life \$'000	Benefit Funds (i) \$'000	Insurance \$'000	Commercial Mortgages \$'000
<b>2012</b>				
<b>Revenue</b>				
Interest, dividends and other investment income	537	-	1	-
Management, risk and establishment fees	12,091	-	-	-
Rent and other	-	(398)	1,306	2
<b>Total segment revenue</b>	<b>12,628</b>	<b>(398)</b>	<b>1,307</b>	<b>2</b>
<b>Profit/(loss) before tax</b>	<b>7,755</b>	<b>(398)</b>	<b>1,065</b>	<b>-</b>
Income tax (expense)/benefit	(3,268)	398	(319)	-
<b>Net Profit</b>				

(i) Net revenue received from the Benefit Funds has been presented as a single line item. See note 3(iii) for further information.

Year Ended 30 June 2011	Centuria Life \$'000	Benefit Funds (i) \$'000	Insurance \$'000	Commercial Mortgages \$'000
<b>2011</b>				
<b>Revenue</b>				
Interest, dividends and other investment income	367	-	2	187
Management, risk and establishment fees	13,086	-	-	23
Rent and other (ii)	-	3,689	1,339	33
<b>Total segment revenue</b>	<b>13,453</b>	<b>3,689</b>	<b>1,341</b>	<b>243</b>
<b>Profit/(loss) before tax</b>	<b>9,137</b>	<b>3,689</b>	<b>1,037</b>	<b>416</b>
Income tax (expense)/benefit	(3,685)	(3,689)	(311)	(125)
<b>Net Profit</b>				

(i) Net revenue received from the Benefit Funds has been presented as a single line item.

(ii) \$575k of non-recurring costs are included within the results for the Property Funds Management segment. Excluding these costs would give a net profit of \$4,633k.



Residential Mortgages \$'000	Mortgageport \$'000	Property Investments \$'000	Property Funds Management \$'000	Corporate \$'000	Consolidated \$'000
16,432	-	71	1,214	528	18,783
-	-	-	10,522	100	22,713
123	-	3,168	63	479	4,743
<b>16,555</b>	<b>-</b>	<b>3,239</b>	<b>11,799</b>	<b>1,107</b>	<b>46,239</b>
<b>3,311</b>	<b>(202)</b>	<b>292</b>	<b>3,577</b>	<b>(11,698)</b>	<b>3,702</b>
(993)	103	(87)	(959)	3,390	(1,735)
					<b>1,967</b>

Residential Mortgages \$'000	Mortgageport \$'000	Property Investments \$'000	Property Funds Management \$'000	Corporate \$'000	Consolidated \$'000
16,889	-	20	122	342	17,929
(812)	-	-	11,044	-	23,341
217	119	2,917	1,849	371	10,534
<b>16,294</b>	<b>119</b>	<b>2,937</b>	<b>13,015</b>	<b>713</b>	<b>51,804</b>
<b>2,239</b>	<b>(3,400)</b>	<b>(6,606)</b>	<b>4,058</b>	<b>(9,223)</b>	<b>1,347</b>
(668)	836	1,982	(1,088)	2,510	(4,238)
					<b>(2,891)</b>

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 30. Operating segments (continued)

The following is an analysis of the Group's assets and liabilities by reportable operating segment for the current year under review:

Year Ended 30 June 2012	Centuria Life \$'000	Benefit Funds \$'000	Insurance \$'000	Commercial Mortgages \$'000	
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### 2012

Assets	13,204	465,280	647	332	
Liabilities	(888)	(465,280)	(8)	(14)	

Year Ended 30 June 2011	Centuria Life \$'000	Benefit Funds \$'000	Insurance \$'000	Commercial Mortgages \$'000	
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### 2011

Assets	12,759	509,450	832	317	
Liabilities	(930)	(509,450)	(48)	(45)	

Residential Mortgages \$'000	Mortgageport \$'000	Property Investments \$'000	Property Funds Management \$'000	Corporate \$'000	Consolidated \$'000
------------------------------------	------------------------	-----------------------------------	--	---------------------	------------------------

216,742	3,421	17,244	19,535	39,747	<b>776,152</b>
(186,230)	-	(16,980)	(3,431)	(12,945)	<b>(685,776)</b>

Residential Mortgages \$'000	Mortgageport \$'000	Property Investments \$'000	Property Funds Management \$'000	Corporate \$'000	Consolidated \$'000
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210,470	4,566	26,779	18,116	45,586	<b>828,875</b>
(185,612)	-	(26,020)	(3,830)	(12,459)	<b>(738,394)</b>

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 30. Operating segments (continued)

Other segment information.

Year Ended 30 June 2012	Centuria Life \$'000	Benefit Funds \$'000	Insurance \$'000	Commercial Mortgages \$'000	
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### 2012

Carrying value of investments accounted for using the equity method	-	-	-	-	
Depreciation and amortisation of segment assets	-	-	-	-	
Significant other non-cash expenses	-	1,262	-	-	

Year Ended 30 June 2011	Centuria Life \$'000	Benefit Funds \$'000	Insurance \$'000	Commercial Mortgages \$'000	
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### 2011

Carrying value of investments accounted for using the equity method	-	-	-	-	
Depreciation and amortisation of segment assets	21	-	-	-	
Significant other non-cash expenses	-	3,812	-	(258)	

Geographical information: The consolidated entity operates in one geographic region, Australia.

Residential Mortgages \$'000	Mortgageport \$'000	Property Investments \$'000	Property Funds Management \$'000	Corporate \$'000	Consolidated \$'000
------------------------------------	------------------------	-----------------------------------	--	---------------------	------------------------

-	-	-	-	686	<b>686</b>
-	-	-	510	223	<b>733</b>
-	321	285	-	1,169	<b>3,037</b>

Residential Mortgages \$'000	Mortgageport \$'000	Property Investments \$'000	Property Funds Management \$'000	Corporate \$'000	Consolidated \$'000
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-	2,836	-	-	4,617	<b>7,453</b>
-	-	-	411	204	<b>636</b>
-	3,500	5,925	-	-	<b>12,979</b>

# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 31. Key management personnel compensation

### Details of key management personnel

- R.W. Dobson (Chairman) appointed 28 November 2007.
- J.E. McBain (Director, CEO) appointed 4 April 2008 as CEO and Director on 10 July 2006.
- J.C. Huljich (Director, CEO - Property division) appointed 28 November 2007.
- P.J. Done (Non-executive director) appointed 28 November 2007.
- D.K. Gupta (Non-executive director) appointed 28 November 2007.
- T.D. Reid (Company Secretary, and General Manager - Friendly Societies) appointed 1 October 2008.
- M.J. Coy (CFO and appointed additional Company Secretary of CCL on 21 October 2009).
- D.B. Govey (Head of Assets) appointed 1 May 2006.

### Key management personnel compensation

The aggregate compensation paid to key management personnel of the Group is set out below:

	2012 \$	2011 \$
Short-term employee benefits	1,910,770	1,799,861
Post-employment benefits	201,086	145,642
Share-based payments	-	203,687
	<b>2,111,856</b>	<b>2,149,190</b>

Detailed information on key management personnel is included in the Remuneration Report.

## 32. Share-based payments

### Performance Rights and Executive Option Plan

The Company's Performance Rights Plan and Executive Option Plan are described in detail in the Remuneration Report which forms part of this document.

Performance Rights Plan	Performance Rights Grant date	Number of Performance Rights Granted	EPS Hurdle	Vesting Date
Compensation Performance Rights	10 February 2010	0.7 million	No EPS hurdle	1 July 2010
Incentive Performance Rights	30 June 2010	0.3 million	8.96 cents	30 September 2010
Incentive Performance Rights	30 June 2011	0.7 million	7.50 cents (i)	30 June 2011
Incentive Performance Rights	30 June 2012	-	8.0 cents (ii)	-
Incentive Performance Rights	30 June 2013	-	(iii)	(iii)

## 32. Share-based payments (continued)

### Performance Rights and Executive Option Plan (continued)

- (i) Based on underlying net profit after tax.
- (ii) Based on underlying net profit after tax, the EPS hurdle wasn't met at 30 June 2012; hence no performance rights were issued.
- (iii) EPS hurdle and vesting date will be set prior to the time of grant. There are 1.3 million performance rights available for potential future issuance by the Nomination and Remuneration Committee.

### Long-term Incentives (LTI)

An Executive Option Plan ('EOP') was approved at the 2009 AGM. The EOP represents the long-term incentive for senior executives. The award of Executive Options under this plan was subject to EPS hurdles and a vesting date of 30 June 2012. The EPS hurdles have not been met and therefore all executive options have now expired.

During the financial year ended 30 June 2012, performance rights and options for a value of \$nil (2011: \$nil) were granted as performance rights and options to the executive directors.

The number and weighted average exercise price of share options granted to the executive directors is as follows:

	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price	Number of Options
	2012	2012	2011	2011
Outstanding at beginning of the financial year	0.73	1,000,000	0.73	1,000,000
Outstanding at end of the financial year	0.73	1,000,000	0.73	1,000,000

The options outstanding at 30 June 2012 had an exercise price in the range of \$0.66 to \$0.80 (2011: \$0.66 to \$0.80) and a weighted average contractual life of 1 year (2011: 2 years). All share options lapsed on the 30 June 2012 due to the performance conditions not being met.



# Notes to the Consolidated Financial Statements for the financial year ended 30 June 2012

## 33. Parent entity disclosure

### Performance Rights and Executive Option Plan (continued)

As at, and throughout the financial year ending 30 June 2012, the parent entity of the Group was Centuria Capital Limited.

	2012 \$'000	2011 \$'000
<b>Result of parent entity</b>		
Loss for the period	(2,214)	(3,699)
<b>Total comprehensive income for the period</b>	<b>(2,214)</b>	<b>(3,699)</b>
<b>Financial position of parent entity at year end</b>		
Total assets	107,355	109,464
Total liabilities	22,322	20,231
<b>Total equity of the parent entity comprising of:</b>		
Share capital	91,163	101,592
Share-based incentive reserve	(68)	477
Retained earnings	(6,062)	(12,836)
<b>Total equity</b>	<b>85,033</b>	<b>89,233</b>



## Independent auditor's report to the members of Centuria Capital Limited

### Report on the financial report

We have audited the accompanying financial report of Centuria Capital Limited (the company), which comprises the consolidated statement of financial position as at 30 June 2012, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 33 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

#### *Directors' responsibility for the financial report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 2, the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

#### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.



## *Independence*

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

## *Auditor's opinion*

In our opinion:

(a) the financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
- (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 2.

## **Report on the remuneration report**

We have audited the Remuneration Report included in pages 15 to 21 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the remuneration report in accordance with Section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the remuneration report, based on our audit conducted in accordance with auditing standards.

## *Auditor's opinion*

In our opinion, the remuneration report of Centuria Capital Limited for the year ended 30 June 2012, complies with Section 300A of the *Corporations Act 2001*.

KPMG

Steven Gatt  
Partner

Sydney  
24 August 2012

## Additional stock exchange information as at 24 August 2012 for the financial year ended 30 June 2012

### Distribution of holders of ordinary shares

Distribution of Holders of Ordinary Shares	Number of Holders	Ordinary Shares
1 - 1,000	6,372	3,247,313
1,001 - 5,000	7,082	15,803,740
5,001 - 10,000	1,045	7,103,502
10,001 - 100,000	684	15,331,769
100,001 and over	61	40,354,794
	<b>15,244</b>	<b>81,841,118</b>
<b>Holding less than a marketable parcel</b>	<b>7,772</b>	<b>4,811,283</b>

### Substantial shareholders

Ordinary Shareholders	Shares Held
RBC Dexia Services Australia Nominees Pty Limited	9,277,081
Resolute Funds Management Pty Ltd	4,363,126
JP Morgan Nominees Australia Pty Ltd	4,185,116

Ordinary Shareholders	Number of Holders	Ordinary Shares
1. RBC Dexia Services Australia Nominees Pty Limited	9,277,081	11.34%
2. Resolute Funds Management Pty Ltd	4,363,126	5.33%
3. JP Morgan Nominees Australia Limited	4,185,116	5.11%
4. Paritai Pty Limited	2,189,116	2.67%
5. National Exchange Pty Ltd <Corp A/C>	1,401,563	1.71%
6. Centuria Employee Share Fund Pty Ltd <Centuria ESF A/C>	1,215,000	1.48%
7. Avanteos Investments Limited <1259738 A/C>	1,107,822	1.35%
8. Vintage Capital Pty Ltd	1,100,000	1.34%
9. Avanteos Investments Limited <1703553 A/C>	1,063,608	1.30%
10. Avanteos Investments Limited <2412987 A/C>	1,020,000	1.25%
11. Trust Company Superannuation Services Limited <Sparxx S/F A/C>	960,253	1.17%
12. Prudential Nominees Pty Ltd	873,437	1.07%
13. Sterling Grace Capital Management LP	802,550	0.98%
14. Sterling Grace International LLC	802,550	0.98%
15. Drake Private LLC	746,550	0.91%
16. Avanteos Investments Limited <2469707 A/C>	533,655	0.65%
17. National Exchange Pty Ltd	500,000	0.61%
18. Citicorp Nominees Pty Limited	366,747	0.45%
19. Noonbah Pty Ltd <Noonbah S/F A/C>	350,000	0.43%
20. Locope Pty Ltd	340,000	0.42%
	<b>33,198,174</b>	<b>40.56%</b>

### Voting rights

All ordinary shares (whether fully paid or not) carry one vote per share without restriction.



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## Corporate Directory

### Contact Us

Shareholder enquiries call	1800 11 29 29
Property investors call	1300 CENTURIA
Policyholder enquiries call	1300 50 50 50
Insurance enquiries call	13 31 30
Outside of Australia call	+61 2 8923 8923

Website	<a href="http://www.centuria.com.au">www.centuria.com.au</a>
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ASX Stock Code	CNI
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### Shareholder Enquiries

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